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STOCK EXCHANGES
IN
INDIA.

BY

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TO

MY FATHER

PREFACE.

The existence of a Stock Market in the present capitalistic regime is one of paramount importance. A Stock Market is a great financial centre, making it possible for the investor to find a ready market for his investment, and for industries a means for getting the required capital. But at the same time to deal on a Stock Market without adequate knowledge is to court disaster. Wisely directed investment and speculation, with a full knowledge of Stock Exchange practices is always in the interest of the individual investors and speculator and may also be to the betterment of the economic welfare of a nation, nay the whole world. It is because of this fact that, of late, attention has been directed towards Stock Exchange practices.

Though a number of Stock Exchanges have recently sprung up in the country, the present study is mainly confined to the practices of well-established Stock Markets of Bombay, Calcutta, and Madras. There is a dearth of literature dealing with Indian Stock Markets and to fulfil that demand, I was tempted to take up the present study with a view to unearth the general principles governing their operations. Attempts have been made throughont the study to find out by actual observations and by such reports, memoranda, government communique etc., the functions, utility and limitations of the well-established Stock Markets in the country. One conclusion in this connection is irresistible, that for the economic betterment of the country, it is necessary that not only Stock Exchange practices should be reformed and their facilities widened, but at the same time facilities should be provided for the investor to learn the technique of investment as he is generally ignorant about it. If this study gives an insight of the working of the Stock Exchange Market to the investors who may begin to feel that a study of the Published Accounts of Joint Stock Companies, with all the limitations of a Balance Sheet is necessary for the investment of their money, I shall feel amply rewarded.

I must gratefully acknowledge my indebtedness to Mr. Rup Ram Gupta M. A. ; B. Com., Principal, Seth G. B. Poddar College, Nawalgarh (Jaipur State) who was instrumental in the selection of my subject and under whose sympathetic and able guidance, I had the good fortune to work. I am indebted to him for giving me this opportunity of liberal education and self study and for the pains that he took in guiding me with regard to the outline, body and make up of this thesis.

I am highly grateful to the authorities of the various Stock Excha nges of the country for their prompt reply to my questions and for supplying me the necessary information. I am also thankful to my friends who have a ssisted me in the reading of the proofs of the book as also to all others wh o have ungrudgingly helped me in the completion of my wo rk.

Agra,
Feb. 6, 1946

K. L. Garg.

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CHAPTER I

INTRODUCTION.

Importance, Meaning and Functions of Stock Markets.

"If you want to know how things in Britain are going on, do not study the House of Commons, but watch the London Stock Exchange." This was the advice reported to have been given by Bismarck to a young German Diplomat enroute for London about sixty years ago and explains the importance of a Stock Market in the present economic order. A Stock Exchange has been described as the mart of the world, the nerve centre of politics and finances of a nation, 'the barometer of its prosperity and adversity.' It forms an important part of the financial mechanism of the modern state and stimulates the flow of capital into industry. The direct encouragement given by a Stock Market to the promotion of joint stock enterprises for large manufacturing industries and the stimulus provided by such an institution to the cooperation of small investors in the flotation of large industrial concerns are some of the benefits conferred by a Stock Exchange. The Cotton Industry in Bombay, the Jute Industry at Calcutta owe not a little of their success to the Stock Exchange market. It is the Stock Market which provides a means for the utilization of the savings of individuals into channels of maximum utility and promotes the widest dissemination of knowledge about the affairs of corporate organization, at the same time serving as an index of the industrial, commercial and financial stability and progress of a nation.

Meaning

The Stock Exchange does not seem to give a clear indication of its meaning even to those who actually deal on the Stock Exchange. To some it means 'an open sesame for treasure', to some it means 'a place where one gets rich in an easy and effortless way', while to some it conveys a definitely dark picture full of immoralities providing a home for people whose morals have gone down and who want to make money through lies and treacherous activities. None of these views can be said to be true of the modern Security Market which has come to occupy an important position and serves a useful and legitimate economic function particularly because of the expansion of joint stock enterprises and to appreciate its importance we need only think of the enormous difficulties and delays that attend the transfer of other forms of property that do not enjoy exchange or market facilities, and landed estates form excellent examples.

The Stock Exchange may be defined as a forum, a mandi or a market for the purchase and sale of industrial and financial securities such as shares and debentures of public companies, Government Paper, Municipal and Port Trusts' bonds and debentures. In this market the members of the Association are relatively to a small extent—in India to a greater extent—the principals of the transaction, and their far more important role is that of a broker transacting business on behalf of the public. The Stock Exchange in this sense is not a private institution of members—although legally it cannot be anything else—but is a great public institution in the conduct of which every member of the public is interested. A Stock Exchange, in brief, is an association of persons engaged in the buying and selling of stocks, bonds and shares for the public on commission and are guided by certain rules and usages.

Every security or a share constitutes a separate market for itself on a Stock Exchange, which consists of a group of men standing in a certain place provided for the purpose and ready to deal in a certain class of security. It should not be understood, at the same time, that "a Stock Exchange is some-

thing like a vast warehouse where securities are taken away from shelves and sold across the counters at a fixed price in a catalogue which is called the Official List."* On the other hand, unlike a vegetable or a fish market it does not provide a place where people are found with stocks of various articles ready to sell or to purchase but it simply provides a place where the main traffic of stocks and shares is conducted. Shares and securities, occupying a country-wide market cannot be expected to be exchanged so easily unless some facility by which buyers and sellers can meet together and deal at competitive rates is available, and a Stock Exchange provides the necessary facility for the transfer of stocks and shares at competitive rates and without undue delay.

The Stock Exchange is not an investment institution like the Investment Bank, the Issue House or the Investment Trust, supplying capital to industrial enterprises. It is simply a meeting place for the intermediaries who find out buyers and sellers for the purchase and sale of securities and thus it provides a continuous and open maket for them. Since the introduction of the principle of limited liability, thousands of millions of capital has been subscribed for commercial and industrial businesses of every description and the trade and commerce of the country have thereby expanded and developed to an enormous degree. The Stock Exchange has contributed very largely to this development by providing the market for securities of various companies. Without a market investment would necessarily be of a more or less unnegotiable character and would as a consequence be much less attractive. In addition to providing a market, the Stock Exchange has largely assisted in directing the accumulated wealth of the country into fruitful channels.

In short Security Exchanges are market places where millions of individuals and institutional buyers and owners of listed securities may readily and promptly exchange their savings for stocks and bonds, convert their holdings of securities for cash and exchange them for other listed securities. It thus performs an important function in directing the flow of new earnings into investment leading to further wealth producing activities. The process is accomplished in two principal ways—(1) by direct purchase of securities by the individuals and business concerns by whom the savings were actually accumulated and (2) by placing the savings with financial institutions such as banks and life insurance companies, which in turn invest their funds in securities.

The middlemen or the underwriting houses perform an important role in the distribution of new issues. This function in foreign countries like the U. S. A. is performed by the investment banker and in Germany by commercial banks who underwrite the whole issue and sell it either to the public directly through the agency of stock brokers or to the institutional investors directly and then indirectly to the public which invest its savings either in the form of shares of these institutional investors or by way of deposit. Banks in Germany are members of the stock exchange and once they have financed the requirements of the industry, they find it easy to dispose off their investment to the public without locking their capital.

This facility provided by the investment banker is not available in India to a very great exient. There are a few underwriting houses, and a little business of underwriting is performed by the Stock Exchange brokers, but the system is not very popular. Corporations by issuing prospectuses make direct appeal to the investing public to subscribe for its shares. Industrial banking is conspicuous by its absence in India and commercial banks are not willing to stretch their helping hand to industries by financing their long term needs. There is no agency which can perform the same function as is per-

* Hartly Withers—Stock and Shares, page 221.

formed by the investment banker or the commercial bank on German lines. To a certain extent this service was performed by the Managing Agents in India but they have also been subject to adverse criticism in the past. Due to the non-existence of such facilities the function of Stock Exchange is further widened as in some cases the function is performed by stock brokers. Thus stock market performs an indirect but vital function in the distribution of new securities.

Advent of Stock Market :—*Joint Stock Enterprise leading to Stock Exchanges.*

In the early stages of economic development, industries were organised in the form of gilds and exchange was by barter. Barter economy was the rule of the day. Various factors such as general insecurity, risk of road transport led to the hoarding of savings and checked the growth of capital. Trading companies were formed by the Dutch, French and English Governments to carry on trade with India. In the year 1800, when there was a shortage of currency, Treasury Bills were issued by Governor General in Council. These bills contained the germs of the present public debt in India. Gradually the public debt of India increased. In the 18th and 19th centuries the sole form of security investment was the National debt.

Afterwards Joint Stock Corporation came as a second institution creating securities. In olden times significant problems of corporate finance did not arise as before the advent of machinery all the factors of production were supplied by one single person who managed the business. But with the invention of scientific methods of production, division of labour, specialisation came to be adopted, which was further aggravated by the development of transport facilities, which in turn led to the opening of new markets. Machinery of production became more complex and this necessitated an increasingly larger amount of capital. This huge amount of capital is no longer supplied by a single individual but by groups of individuals. In this way the proprietorship and partnership form of organisations gave way to Joint Stock Companies, the Corporations and Holding Companies.

The recognition of the principle of Limited Liability and its consequent advantages led to the establishment of Joint Stock enterprises which became a special feature of modern copitalistic age which "is the age of joint stock enterprise and its outstanding achievments in economic organization is the joint stock company."

The number of joint stock companies went on increasing as in 1901 there were in all 1400 companies and their paid up capital amounted to slightly over 2. 5 lakhs per head. Some new industries, the most important being the iron & steel and cement were introduced during the years preceding the Great War of 1914-18. It is the period following the Great War and its consequent boom which has given rise to a number of flotations. During the first three years 1919, 1920and 1921, on an average 900 companies were registered every year. As is evident from the table given in appendix II that within two decades after 1911-1912 the number of companies registered went up from 2304 to 7997 and thereafter went on increasing at a rapid speed. This development of jointstock enterprises on a large scale could not have been possible but for the existence of Stock Exchanges and the facilities provided by them for the transfer of shares and securities. Under the present form of joint stock organisation the executive administration is exercised by a Board of Directors and capital is obtained by means of a large number of shares which are transferable. Thus there is almost a complete divorce between the actual control of business and the ownership of the invested capital. The principle of Limited Liability and transferability of shares had a very wholesome effect on the readiness of the investors to place their savings in all kinds of joint stock companies. The first Joint Stock Companies Act was passed in the year

1850. Several amendments to this Act were made from time to time during the years that preceded the Great War. In 1913 a consolidated Companies Act was passed. The Act was further amended in the year 1936.

It is this development of National Debt and corporate form of organization which provided the root cause for the existence of our modern Security Markets. In the past as there has always been an apathy towards investment in industrial enterprises, it was very necessary to devise a suitable method with a view to attract the savings of the people for investments in industrial concerns and the establishment of a Stock Exchange is a potent factor for the solution of this problem. Stock Exchanges by providing a ready market for the selling and purchasing of shares and debentures inspired confidence in the minds of the investing public and enabled the industrial concerns to obtain the necessary amount of long-term finance.

(B) Economic functions of an organised Security Market :—

The fundamental purpose of an organized exchange to quote the preamble of the constitution of the New york Stock Exchange is "to furnish exchange rooms and other facilities for the convenient transaction of their business by its members as brokers, to maintain high standard of commercial honour and integrity among its members and to promote and inculcate just and equitable principles of trade and business." A Stock Market, in its simplest form, may be considered as a market for the purchase and sale of securities and its continued existence and development plays an indispensable role in a capitalistic society, having joint stock enterprise as its main feature. A Stock Exchange should be able to guarantee a free and continuous market for the exchange of securities and thus help in the determination of their real values. Because of their existence, investors are much convenienced in converting their holdings in cash and this factor, in turn, is responsible in stimulating the flow of capital into industry. A Stock Market by providing a continuous market not only makes possible the conversion of securities into cash or shares, but also facilitates international investment of funds, making international payments possible without shipment of gold.

"Stock Exchanges are not merely the chief theatres of business transactions, they are also barometers which indicate the general conditions of the atmosphere of business."* They are very sensitive to changing political, social and cultural conditions. The trend of values on these markets reveal the trends in economic prospects of various industrial units. Hence the industrialist, the investor, as well as the student of economics can feel the pulse of the nation by watching the trend of changing values on these markets. Like every other organized market, a stock market also aims at providing a continuous, free and a fair market, where buyers and sellers can come in contact and deal in shares and securities. It helps in providing a ready market where shares and securities can be exchanged and transferred with the minimum loss of time and the maximum of profit.

Under present day economy an organized Security Market performs the following functions :

(i) Directing the flow of savings into Investments :—

The Stock Exchange serves a fundamental function by providing the necessary mobility to capital and directing the flow of capital into profitable and successful industrial enterprises and retarding its flow into enterprises with less justification for development. This facility provided by Stock Exchanges serves a desirable social function by furthering the existence of those industries which are more desirable. Thus not only capital is attracted but it is directed to more profitable channels. This is achieved by watching

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* Marshall—Trade, Industry and Commerce, page 89.

the price-movements on the Stock Exchanges. A rise in the price of a particular security, if it seems to be permanent, indicates that the future prospects of the industry are likely to improve and that the industry shall be in a position to absorb more capital with advantage. On the other hand a fall in the price of any group of securities indicates that the capital employed therein is being shifted to another group in which prices are rising prospectively. The interested persons and the investors, as a consequence, can feel where capital is needed most and can formulate their investment policy accordingly. Thus the overflow of capital where there is no necessity and its scarcity where it is most needed are avoided and a fine balance is brought about between demand supply. "Simultaneous gluts and scarcities of capital as between different industries are almost automatically prevented, misalignments between the supply of capital and the demands of industry are largely avoided and great economies in the use of capital are thus produced."[1]

The economic well-being of a nation, no doubt, requires that the savings of the people should be directed into most deserving industries and they should be so disseminated that equal value in productivity for equal amounts of savings placed in different enterprises may be obtained. But in modern times some practices have become common which hamper Stock Exchanges from making their proper contribution in realising this desirable dissemination of savings. Two of the malpractices, so widely rampant may be noted—

(i) manipulation of a stock on the exchanges by the issue houses or by bankers' syndicates or by individuals interested in the sale of the stock and (ii) the dissemination of false favourable rumours to attract the investing public.

These undesirable practices lead to the flow of savings under wrong impressions and ideas and result in a loss to the potential wealth of the society as a whole due to misdirection of capital.

(ii) Leading to Stability and Liquidity of Capital.—

A Stock Exchange by providing a ready and continuous market enables an investor to withdraw his capital, at any time, either for personal requirements or for other capital investments. This is a very important consideration behind the investment of savings into industrial enterprises. But the extent of this privilege is limited. Stock Exchanges do not provide facilities for withdrawing funds from the industry, as the capital once invested cannot be withdrawn but it provides the necessary facility for the selling of one's securities at whatever price available and at some time if too many people want to take advantage of this privilege, it shall lead to a drastic decline in values with a consequent loss to investors. But there is not the least doubt that Stock Exchanges make these investments liquid and easily disposable. This factor also adds to the collateral value of securities and enables its holders to obtain a substantial amount by way of loan from financial institutions on the strength of securities that are quoted on an organized exchange than on most other capital goods. Securities listed on the Stock Exchange become much more negotiable than those not so listed. This privilege of a continuous market also provides an advantage to the creditors who cannot only estimate the value of their collaterals on which they have advanced loans but can promptly liquidate them in times of emergency. Besides, a Stock Market by providing a continuous market leads to a continuity of prices and thus makes it practicable to place stop-loss order[2] with the knowledge that they will be executed at or near the price where they become operative.

It may be said, however, that capital is supplied to industry chiefly through the sale of new securities either through the investment banker or

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1. Meeker—The Work of the Stock Exchange, page 50-54.

2. Vide Chapter V.

through underwriters or directly through a sale to the public by an issue of prospectus and the exchanges play no direct part. But the exchanges do perform a very important service by providing facilities for the secondary distribution of listed securities, after their original sale as new issues. The presence of exchanges, where securities can be bought and sold, tends to create an interest in securities in the minds of public and enhances their willingness to invest in various enterprises. In fact the announcement when new issue are offered that application will be made to list such securities on the Exchange is considered important sales argument. Exchanges, therefore, by providing a broad market enable the original buyer to sell a large volume of new securities which they have purchased and hence provide a greater amount of capital to industry than would otherwise be possible. It is apparent therefore that the function of Security Exchanges in increasing the marketability of the securities though of a secondary and indirect nature is nevertheless of great importance.

(iii) Increased safety of dealings :—

Organised Stock Exchanges work under certain definite rules and regulations which minimize the danger of forged securities passing as genuine. These regulations under which organized exchanges are required to work tend to inspire confidence in the minds of investors. An organized exchange is also recognized by government, banks, trusts, insurance companies and others mainly because of security of dealings. Scale of commission chargeable by brokers is fixed and any evasion of that may lead to a fine, suspension or expulsion. In other words an organized exchange is instrumental in providing security and safety of contracts through its collective regulations, facilities and discipline leading to standard practices and affords the necessary protection to the investors. Constant quotation service provided by organized security markets further benefits the security owners and creditors. Buyers and sellers and the public in general are kept informed of market quotations. Though in India quotation service is not so advanced as in foreign countries where we have mechanical devices, yet its existence provides an advantage not only to the members but also to the general public.

(C) Kinds of Securities :—(Dealt in at the various Exchanges)

(i) Proprietorship Securities :—

The three principal classes of shares are Ordinary, Preference and Deferred shares. but there may be several variations of them and the rights and privileges of each class of shares of a company are found in its memorandum and articles of associations.

Ordinary shares :—Such shares, which do not carry any special rights or privileges excepting the ordinary right of every shareholder to participate in the annual profits, are termed as Ordinary Shares. It is the ordinary shares which carry the right to get the whole of the profits earned by the company after paying the fixed dividend upon preference shares. Sometime the term "Equity Share" or equities is applied to them in case they are entitled to the remaining profits after all the prior claims have been met.

Preference Shares :—These are those shares that carry with them certain preferential rights in priority to other classes of shares. The several rights and privileges attached to perference shares may be as to :—

(a) Dividends :—The preference shares have a prior right to fixed dividend *i. e.* dividends on other classes of shares are defferred until the fixed dividend is paid on the preference shares. Unless the articles provide to the contrary, perference share dividends must be paid less tax; the declaration of free of tax dividends would deprive ordinary shareholders of profits to which they are entitled. The fixed dividend on such shares may be paid yearly or half-yearly and the existence of profits sufficient to pay the fixed dividend does, of itself, give perference shareholders a claim to such dividend. If in the directors'

discretion it would seem that allocations to general reserve or other purposes, are in the best interests of the company, they are justified in passing the perference dividend, or recommending its payment in part only. It is expected here that the directors would act in the interest of the company as a whole, as any attempt to defeat the claims of preference shareholders by this means would be nullified if the members concerned obtain an injunction restraining the directors from disposing of the proffits in the proposed manner.

The dividend right attached to perference shares may be cumulative, non-cumulative or partly-cumulative and partly non-cumulative.* If the preference share dividend is cumulative and if it is not paid in full in any one year or for a term of years, it must be paid in full before other shareholders can share in the profits. But where the preference share dividend is non-cumulative, it extends only to each year and sometimes to each half year of the company's working. Accordingly the preference shares are known as cumulative or non-cumulative preference shares.

(b) Repayment of Capital :—Almost invariably preference shares carry the additional right to a return of capital in priority to other classes of shares ; but this right is not available unlss expressly confirred by the articles. In the absence of any express provision to this effect, preference shares rank, on winding up, equally with other classes in the matter of repayment of capital.

(c) Participation in surplus profits and assets :—Sometimes, especially in the case of companies working a rather speculative class of enterprise, preference shareholders, after receiving the full dividend to which they are preferentially entitled, have also the right to a further share in profits after the ordinary shareholders have received a certain amount of dividend. A preference share having such a right is called a 'cumulative participating perference share'. Such a share is very strongly protected. "It carries the right to a fixed dividend before the ordinary share holders receive anything, so that if the company is only moderately successful, its service has to be considered first, and at the same time if the company earns big profits, it gets some share in them after the ordinary shareholders have had their slice." Such forms of preference shares, are however, not very common. But they are, however, entitled to their proportionate share of any surplus assets on winding up, after arrears of dividend, if any, have been met and all capital repaid, unless that right has been expressly or by clear implication taken away. In practice, however, companies usually issue preference shares subject to a provision which entitles them, on winding up, to priority over other classes as to repayment of capital and arrears of dividend upto the commencement of winding up, but no further right to participate in profits or assets.

(d) Right at General Meetings—(voting or otherwise) :—

The rights of preference shares with regard to the receipt of, and to attend and vote at, the general meetings of the company are governed by the articles. Preference shares may have equal voting powers with other ordinary shares ; but it is usual to restrict the preference-share voting-power, and frequently to withhold voting right until the dividend is in arrears. Such a restriction on the right of preference shares, seems to be equitable to a certain extent, as the preference shareholders, enjoying priority over the holders of ordinary shares as to payment of dividend and frequently also as to repayment of capital in the event of liquidation, run no risk, a greater part of the risk being borne by ordinary shareholders and it is only equitable that the latter kind of shareholders should have a preponderant voice in the control of the company. Moreover since the right of preference shareholders must be

*For example the preference shares issued by Khas Kajora coal Co. Ltd, carry the right to a fixed cumulative dividend of 5 per cent per annum and to a non-cumulative dividend of 8 per cent per annum (The Investor's India Year Book).

satisfied before any income or benefit can accrue in respect of ordinary shares, it would normally happen that in exercising their power of control for their own benefit the ordinary shareholders would automatically be safeguarding the interests of the preference shareholders. But at certain times this position of preference sharholders might jeopardise their own interest. The preference dividend may not be in arrears for a single year, its payment being rendered possible by the action of directors in drawing upon reserves or in neglecting to maintain or to provide for adequate depreciation upon the fixed assets. This practice if continued, may endanger the capital of the shareholders and by the time the preference dividend is suspended and preference shareholders get the right to attend meetings and vote thereat, the position might become irremediable. It may therefore be considered that although the control of the company in ordinary circumstances should remain with the ordinary shareholders, the preference shareholders should be entitled to receive notices of and to attend meetings and be invested with some modified voting power so that they may keep themselves informed as to the current position of the company and use their influence in bringing about changes in the affairs of the company, when such changes become desirable.

(e) Right to appoint directors :—Occasionally, in order to make preference shares more attractive to investors, it is provided that preference shareholders shall have the right to appoint one or more directors of the company.

(f) No Creation of prior rights :—A company which has already issued preference shares may make a future issue of capital having priority over the existing preference shares. The new shares will then be known as '*pre-preference shares*'. Unless the preference shareholders' rights are properly safeguarded in this respect by a suitable provision in the company's memorandum and articles, the company may create shares having prior claims to dividends and capital without consulting existing preference shareholders, whose interests are prejudiced. But such an issue may be restricted by the articles by having a desirable protective clause as for example—

"No more shares ranking on equal footing with the present issue of preference shares shall be issued by the company without the previous consent of three-fourths majority of the said preference share-holders." (prospectus of Nellore Power and Light Ltd.)

(g) Right of Conversion :—When a right of conversion is attached to preference shares, the preference shareholders can convert them into another class of shares, *e. g.*, ordinary or deferred within a specified time. For example the prospectus of Olympia (Calcutta) Ltd., dated 27th May, 1938, which offered to the public 500, 6 per cent cumulative redeemable preference shares of Rs. 100 each and 36,500 ordinary shares of Rs. 10 each, stated *inter alia*, that "the holders of the preference shares shall have the option, while they remain unredeemed of converting the preference shares into ordinary shares on the basis of ten ordinary shares for every preference share." Where preference shares have a right of conversion, they are called '*Convertible prefereuce shares.*'

(h) Guarantee right :—Preference shares issued by a company may be guaranteed as to dividend and repayment of capital by another company. Guaranteed preference shares thus offer to the investors additional security. The 30,000, 6 per cent (tax free) cumulative first* preference shares of Rs. 100 each issued by the Dunlop Rubber Co. (India) Ltd., are unconditionally guaranteed both as regards capital and dividend by the Dunlop Rubber Co., Ltd., of England.

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* Preference shares are sometimes issued as first and second preference shares or as 'A' and 'B' preference shares. The first or A preference shares rank in front of second or B preference shares in the matter of dividend and repayment of capital

(i) Redemption right :—A company issuing preference shares may undertake to redeem them after a specified period or after giving a specified period's notice. Such preference shares are called Redeemable Preference Shares. This right of redemption after a specified period provides an assurance to the preference shareholders that their capital will be repaid and are, therefore, sometimes more attractive.

The issue of Redeemable Preference shares has been authorised for the first time by Section 105 B of the Indian Campanies Act, 1913, which was inserted by the Indian Companies Amendment Act of 1936, which came into force on 15th January, 1937.[1]

Preference Vs. Ordinary Shares :—

It is not advantageous to prefer the one over the other. Preference Shares are generally favoured by cautious investors, who want a guarantee of minimum dividend, but they cannot be regarded as safe as debentures, which enjoy a greater security both of payment of interest and repayment of capital, nor so profitable as the ordinary shares where there is no limit to the getting of gains. In prosperous times preference shareholders get nothing more than their fixed dividend unless they hold participating preference shares, while in times of adversity, like ordinary shares, they run the risk of losing their entire capital though they are protected to a certain extent due to their preferential right of repayment of capital in the event of winding up. The difference between these two kinds of shares is not so much of kind as of degree and though both of them cannot be placed on par, preference shares are preferable in times of adversity, while in times of prosperity, the ordinary shares are liked most, but neither of them are free from the inherent risk of the industry. In practice, however, preference shares appeal to those investors who are willing to make some sacrifice of income in the interest of security and are issued by those companies which are almost assured of their earnings, and whose business is not of a speculative nature. During the present war there has been a boom in company flotations in India and quite a large number of companies formed after September, 1943, have issued preference shares, whether the nature of business justified their issue or not. Even a number of highly speculative industries have resorted to this form of raising capital. For instance, Chhotanagpur Associated Minerals Ltd., offered to the public in September, 1944, 1,00,000 ordinary shares of Rs. 10 each and 4,000, 6½% Tax-free cumulative preference shares of Rs. 50 each, and nearly every plantation campany formed in South India in 1943 and 1944 issued some preference shares. A number of banking companies formed during this war-boom period also adopted this questionable method of raising capital and this led, on the recommendations of the Reserve Bank of India, to the amendment of the Indian Companies Act, 1913.[2]

A study of the capital distribution of companies in India would reveal that practically all kinds of companies have raised some capital by way of Preference Shares. The Jute industry has raised a large percentage of its share capital in the form of preference shares. Out of the total 61 companies studied in the table,[3] as many as 49 have issued preference shares and the amount raised in this way forms about 47 per cent of the capital of all 61 companies. Out of 84 cotton mills, 31 have issued preference shares and most of them are situated outside the Bombay city. As the mining industry is more or less speculative, only 8 out of 53 coal companies have been able to issue preference shares. Only one out of twenty banks, and only two out of 30 railway companies have issued any preference shares, because in such companies ordinary shares themselves are virtually preference shares owing to the certainty of earnings. In almost all cases the preference shares issued by

1. Vide Appendix III.
2. Vide Appendix IV.
3. Vide Appendix V.

Indian companies enjoy both the right to a fixed cumulative preferential dividend and a prefrential claim to repayment of capital in the event of winding up. It is in a very few companies that other rights are also attached to them.

Deferred Shares :—

Founders', Deferred or Management shares are those shares which receive no dividend until the preference and ordinary shares have been paid their prescribed respective dividends. These shares are generally issued to remunerate the promoters or founders of the company or the underwriters. Though generally few in number and insignificant in nominal value the voting power which they command and the profit which they share are often considerable. In India such shares, are mostly held by the managing agents. Such shares form an ingenious device for keeping for original promoters or vendors, a very substantial share of the profits and at the same time preserving for them an air of great modesty and moderation.[1]

Deferred Shares are usually issued in our country by organisers as a device for keeping control over the company with a relatively small stake and at the same time for skimming off the cream. These are usually issued in consideration of promoting or organising services and because the payment is made in terms of Deferred Shares, it is made lavishly. The holders of Deferred Shares thus benefit far in exces of the services rendered to the company. But there is nothing wrong in Deferred Shares and they are perfectly legitimate. But they carry with them a temptation to bad finance and it is always in the interest of promoters or the managment to get as high a dividend as possible.

(ii) Creditorship Securities :—

Coming to creditorship securities we have two varieties of them—bonds and debentures. A Debenture is a mere acknowledgement of indebtedness given under the seal of the company containing a contract for the repayment of the principal sum at a specified date, or with a specified period, and for the payment of interest (usually half-yearly) at a fixed rate per cent until the principal sum is repaid and may or may not give a charge on the assets of the company as security for the loan. They are mostly issued by Railways and similar public utility enterprises. When certain specific property is mortgaged for the loan, the security is termed as a Bond, while if the security of the loan depends on the general credit of the issuing company, security is said to be a Debenture. Mortgage bonds are common in U. S. A., while debentures are common in England and India.

The distinction between a shareholder and a debenture holder is that of a creditor and the proprietor. "Any one who holds ordinary and preference stock or share in a company is thereby one of its proprietors, a part owner of the property. His position is thus similar to that of a partner in a brewery or a factory, except that he has delegated the managment to a committee called the directors and the officials of the company." A debenture holder is a creditor of the conpany and is entitled to interest at a specified rate whether profits are earned or not except when he holds what is known as an income debenture in which case interest is payable only out of profits. He, therefore, differs from a shareholder in that the latter is a member of the company whose income can solely come out of profits. A debenture-holder usually possesses a security for his loan, whereas a shareholder has no security. A debenture-holder is not, however, entitled to anything more than his fixed interest, however big the profits of the industry may be.

Debentures issued to the public may either be 'registered' or 'bearer'. Registered Debentures are those which are registered in the books of the company and therefore capable of transfer in a way similar to shares. Such

1. Hartley Withers—Stocks and Shares, page 82—83.

Debentures are therefore transferred by means of a transfer deed. Bearer Bonds on the other hand are negotiable instruments capable of transfer by mere delivery. The interest due on bearer bonds is paid to the holder irrespective of his identity. Coupons are frequently attached to bearer debentures for presentation through a bank on the due dates.

Debentures in India :—

The use of debentures as a means of raising a part of the long-term finance required by a company is a very desirable step, as it ensures economy. But at the same time, it cannot be said that a bond or a debenture is necessarily a sound investment, though its comparative safety if properly issued with real assets behind it cannot be doubted. But at the same time the holder of a debenture bond is not allowed to share in the prosperity of the company where he is only entitled to his 'pound of flesh.' No doubt greater prosperity of the company improves the value of his security and enables him to sleep more peacefully but puts not a pice more income into his pocket.

Debentures despite their advantages do not seem to be common in India as elswhere. As will be apparent from the table (vide Appendix V) it is the jute industry where the percentage of debentures to the total capital is high. Other companies that have made use of the debentures to a certain extent are cotton mills, electric supply and telephone companies, sugar mills, engineering works and miscellaneous companies. In respect of coal companies two out of 53 have any debentures ; and only 8 out of 155 tea companies have issued debentures.

In India Debentures as industrial paper are relatively unpopular. It is because the market for debentures in India is rather limited. The Indian investor, if he wants safety, still plumps for agricultural landed property and is unwilling to take up industrial ventures unless there is a chance for capital appreciation. Hence debentures with fixed yield of interest and with no prospects of capital appreciation do not attract him. Institutional investors, such as banks, insurance companies and investment trusts do not take up industrial debentures. Insurance companies are not as a rule in a position to invest their funds in debentures owing to the restriction imposed by Sec. 27 of the Indian Insurance Act of 1938 ; while commercial banks, following the lead of the Imperial Bank of India, do not favour debentures as means of investment ; whatever investment trusts we have in this country are all of very recent growth. Moreover the debentures are usually of a very high denominations (Rs. 500, Rs. 1, 000 and even Rs. 10,000) and they are thus beyond the reach of the investors of moderate means. A low-denomination debenture would not only enable the investors with moderate means to invest their money with greater security but would also enable them to reduce their risks further by diversifying investments. It is in the interest of companies so as to meet their demand of capital, particularly in times of emergencies that debentures should be made more popular in India by all possible methods and to achieve this greater cooperation between banks and industry is desirable.

(D) Investment and Speculation :—

Stock Exchanges have been looked upon by some as institutions carried on for the purpose of speculation and gambling. On the other hand speculation performs a very useful function in the business life of the community. It is very difficult to draw a fine line between legitimate business and speculation either on the Stock Exchanges or elsewhere and equally difficult to state where speculation ends and gambling begins. The word Speculation is derived from the Latin 'Speculare' meaning to look at from afar. Speculation therefore implies visualisation of future events and occurrences. Speculation on a market implies buying and selling of commodities with a view to make profit from the differences between present and future prices and thus

the profit of a speculator depends on the fluctuations of values and on a Security Market on capital appreciation or otherwise. A speculator purchases a property with a view to make profit from the fluctuations of values, while an investor purchases any property with a view to earn an annual income. A speculator thus assumes greater risks of capital loss and at the same time expects greater profits. As a matter of fact both investment and speculation are alike in that they both involve an exchange of ownership of actual properties and all orders whether for investment or speculation are executed and cleared in the same way on the Stock Exchange.

Pure Speculator and pure investor :—

Though it is not possible to draw any clear line of demarcation between a speculator and an investor, yet it may be noted that a pure investor is one who looks for a fixed yield with a certainty of return or safety of capital and does not care much for capital appreciation. An investor thus buys a security with the primary intention of holding it, more or less permanently and employs his own capital. A speculator, on the other hand, is little concerned with the periodic income of the securities and regards it as accidental only. He purchases a security with the primary intention of selling it at a profit from market appreciations and usually employs borrowed capital. The dealings of a speculator are thus mainly based on differences in prices. The difference between the two kinds of operators viz. pure speculator and pure investor is thus a matter of motive. "All that we can say is that the real investor looks most of all to security of income and least to the hope of capital appreciation, while the pure speculator sets no store by income and looks entirely to the chance of being able to make a big profit by resale and that between these two extremes there is a long chain of gradations from speculative investors down to investing speculators, varying according to the extent to which they put income or capital profit first in their affections."[1]

Speculation and Gambling :—

It is very hard to differentiate between the two and it is not easy to say where speculation ends and gambling begins. The distinction between gambling and speculation is ethical rather than economic and can be based to a certain extent on the exercise of their respective skill by the gambler and the speculator. The exercising of brains by the speculator distinguishes him from the gambler to a very great extent. A Speculator forms his deductions of the future on knowledge and experience while the gambler simply guesses. Gambling implies risking of larger sums than a man can afford on ventures over which he can exercise little or no control. Gambling is thus based on blind chance while speculation has some solid basis for its operation. Speculation and gambling can be distinguished by dividing the speculators into two classes—*Professional speculators and mere Amateurs.* The latter belong to the ill-informed outside public which speculates without any knowledge or skill in forecasting future changes in demand and supply and consequent changes in prices. They do this in a gambling spirit and often follow false prophets who make wrong forecasts and in most cases lead to disaster and collapse. On the other hand *'Professional Speculators'* are shrewd business men who have made speculation their business and who on account of their superior knowledge and foresight are able to forecast with considerable accuracy.

Economic Utility of Speculation :—

It is wrong to say that a person who speculates in stocks and shares is in any way morally inferior to the ordinary investor. In fact a speculator performs an economic service to the community. A speculator increases the

1. Hartley Withers—Stocks and Shares, page 316—317.

number of dealings in the shares in which he operates and by so doing creates a free market by which means the investor is able to buy or sell stock on more favourable terms. The proper economic function of speculation is to promote the establishment or equilibrium of demand and supply in the market and thus to help on the smooth course of consumption, production and exchange.[1] This is achieved by speculation through steadying prices and thus it enormously helps and benefits society. It is the presence of these speculators at the Exchanges that a continuous market is guaranteed. 'A continuous market may be defined as one where any security listed in that market may be bought or sold at any time during business hours at comparatively small variations from the current price.'[2] For a continuous market it is necessary that there must be present (a) a group of speculators so large that some will always be ready to buy or sell a particular stock and (b) the privilege of short selling so that a demand for any particular stock may be supplied immediately by some seller who may not even possess that stock at the time of the sale, but who is willing to make the sale on the assumption that the continuous character of the market will enable him to obtain the particular security later for purpose of delivery.

Speculation and short selling are usually the objects of much criticism, but the fact must not be overlooked that it is the existence of these speculators that a continuous market is guaranteed which in turn leads to a number of benefits.

Healthy speculation which is based on scientific knowledge of business conditions and proper forecasts not only benefits the speculator by giving them profits but it very considerably benefits the society. The speculator's object is to make a profit when prices are rising but he can do so only by mitigating the rise, likewise his object is to make a profit when prices are falling but he can do so only by mitigating the fall. His profits are as it were a reward paid to him by the community for mitigating price changes. When speculation is based on correct estimates of future changes of prices, the result is necessarily a reduction in violent price fluctuations. Just as healthy speculation is beneficial to society, similarly unhealthy speculation leads to great injury and waste. When speculation is carried on by *Amateurs* on the basis of unfounded rumours and imperfect knowledge of economic events, it instead of reducing price fluctuations tends to maximise them and leads to much economic waste. Similarly professional speculators when they wish to fulfil their own objective only, try to artificially alter prices with a view to fill their own pockets by the device of corners and syndicates, they become a curse and cause a great loss to the public. This spirit is not only injurious economically but is also undesirable morally. It is thus always in the interest of society to foster healthy speculation, and curb unhealthy speculation. Speculation alone can furnish the market with continuity and liquidity and these are the two prime requisites of an effective modern Stock Exchange.

Speculation at our Exchanges :—

"Of the total business transacted on the Bombay Share Bazaar, too high, indeed much too high, a proportion is of a speculative nature—several witnesses estimated such business at anything between 80 and 90 percent—and of that speculative business a very high proportion has degenerated into a mere gamble in differences." A strong objection to this view of the Committee was taken by the Bombay Stock Exchange. It cannot be denied however that speculation constitutes the main business at all the Exchanges of the world, as is observed by William C. Van Antwerp that 'in any case,

1. Taussig—Principles of Economics Vol I, Page 157.
2. Huebner—The Stock Market, page 24.
3. Morison Committee Report, para 5.

it is conceded that speculation is what makes the markets today. Since 90 per cent of the transactions that take place daily on the world's Stock Exchanges are speculations pure and simple.'[1] There is not the least doubt that at the Bombay Stock Exchange, in the past, there has been very unwholesome speculation—as is evident from the following observation of the Atlay Committee. "The most sinister manifestation of speculation of Bombay is the frequent occurrence of corners appears to us to constitute the head and front of their offending. A corner is no longer a rare occurrence. On the contrary it appears to have become a recognised phenomenon in the Share Market of Bombay. It is an evil which must be suppressed if the share market in Bombay is not to become utterly demoralised and finally destroyed."[2] But this is an old story whtch was true twenty years ago and it is a great satisfaction to note that after the depression corners are not noticeable at the Bombay Stock Exchange.

A large volume of business passing in Madras is of an investment nature and investment brokers encourage to the maximum possible extent the investment habit and they help the constituents to secure good investment scrips at reasonable prices. Stock Exchanges are meant to provide facilities for speculation and thus benefit the investors who are assured of a constant market in their scrips and hence with investment business certain amount of speculation must always find its way and is always desirable. What we should aim at is that we should eliminate the unhealthy feature of speculation from our Exchanges and for which they have always been subject to adverse criticism.

1 The Stock Exchanges from within, page 48.

2. Atlay Committee Report 1924, page 18.

CHAPTER II

HISTORY OF STOCK EXCHANGES.

Stock Exchanges all over the world are of comparatively recent origin. It is the promotion of joint stock enterprises on the principle of limited liability which is mainly responsible for the growth of the Security Market. In fact it is when the currency of the various nations were stabilised and the well-regulated banking enterprises came to be developed that a foundation was laid for these institutions. In their development England and Holland were the pioneer countries in the world. The London Stock Exchange which was founded in the year 1773, is the financial nerve-centre of not only England but of the world. Though it occupies a very supreme and powerful position, yet its history is not even two hundred years old. The present headquarters in *Capel Court* only dates back from 1801, although officially the Stock Exchange was founded in 1773. Long before that, of course, dealings in stocks took place in London but such business was conducted in the net work of alleys around Cornhill. Dealers congregated in taverns and coffee shops, especially those in Change Alley. The Royal Exchange and the Rotunda Room in the Bank of England were also used at one time by Stock Brokers but in 1773 rooms were taken in Sweetings Alley, after a period in Jonathan's Coffee House in Change Alley and the name of the Stock Exchange was officially adopted. Within the space of a century, France followed suit, Germany and America fell in line in quick succession. India, however, had to wait till the seventies of the 19th century. This late development of Stock Markets in India is primarily due to our later growth of industries. When England was passing through the last stages of Industrial Revolution, India was in the primitive stage of guild-capitalism and there was no need for such a market. Not only there was industrial backwardedness, but even currency, credit and banking were all in the elementary stage. There was no railway system and the modern communications were not thought of. A general insecurity of life and property was prevalent and this instability and insecurity resulted in the hoarding of huge amount of capital. But gradually with the development of capitalistic enterprises on modern lines and passing of Indian Companies Act of 1857, a need for some sort of organised market was felt, which could provide facilities for investment in appropriate directions. Thus there arose the modern Stock Exchanges which from modest beginnings have developed to such an extent as to rank amongst the most organised markets of the world.

Bombay Stock Exchange :—

The Bombay Stock Exchange known as the Share Bazaar is the oldest Stock Exchange in India, The Native Share and Stock Brokers' Association, as it is called, was formally constituted by an indenture dated 3rd December, 1887. Long before the advent of this organised Security Market, dealings in securities were carried on the Cotton Green where Elphinston circle is now situated. Only six dealers were recognised by the merchantile community during a period of 1840—50. Dealings were not regulated by any strict code of rules and hours of business were not prescribed. There was no committee to supervise the conduct of members. The American Civil War in 1860 and the cotton boom have given an impetus to security dealings and led to an increase in the number of brokers to sixty, of whom the leader was one Seth

Prem Chand Roychand who gave to the stock and share brokers of Bombay a standing and importance not hitherto achieved. The American Civil War brought about a demand of Indian Cotton by Lancashire mills and led to a consequent rise in prices. This brought immense wealth to the merchants of Bombay. Many mushroom companies were started and excessive speculation became the spirit of the day. Every body wanted to get rich soon and all sorts of people from menial servants to highly paid employees of the government engaged themselves in speculation. Dealings in Future also started when certain leading speculators with the help of the Alliance Financial Company traded for 1st July, 1865 settlement, having bought them on cash basis.

Black Friday—1st Jnly, 1865 :—

With the end of the American Civil War price of cotton fell from 24 d. to 10 d. per lb. The sudden fall in the price of cotton brought about a crash. Hundreds of companies failed with huge loss of cash and credit and the nadir of the depression was reached on 1st July, 1865—the day when all time-bargains were due. It was this '*Black Friday*' of the city when there was all through an excess of sellers over buyers. This led to a considerable fall in the price of shares and some of them even could not fetch their paid-up values.[1]

Till now business was transacted in an open *maidan* under a tree, without any regulation by any organized machinery. But after the collapse of 1865, brokers, for the first time thought of the necessity of a hall for the transaction of business. It was thus in the year 1875 that an elementary association having 300 members was founded under the style of 'Brokers' Association' and the business was carried on in Dalal Street in a hall taken on a monthly rent of Rs. 130. In 1877 the present 'Native Stock and Share Brokers' Association, was formed with the object "to support and protect the character and status of Brokers and to further the interests of both Brokers and the public dealing in Bombay in stock, shares and like securities and in exchange, to promote honourable practices, to discourage and to supress malpractices, to settle disputes amongst brokers, to decide all questions of usage, custom or courtesy in conducting brokerage business."

The Association since its inception has been serving a useful purpose and its membership has been constantly increasing. The beginning was made with 300 members in 1875 and in 1909 it went up to 361. In 1917 the limit was increased to 451 and in 1920 it was resolved to increase the membership by 101 at Rs. 30,000 each. But the Board was authorised to issue 51 cards only in the first instance out of which only 32 cards were sold, 18 at Rs. 40,000 and 14 at prices varying from Rs. 41,000 to 48,000.

The cost of membership of the Association has also been varying from time to time. The annual subscriptions and entrance fee originally fixed at Rs. 4/- and Rs. 20/- were raised to Rs. 5/- and Rs. 51/- respectively. The admission fee which is the price of the card was raised in 1896 to Rs. 1,000 ; the price of the card has fluctuated with the tempo of the market. Between 1,800 to 1,910, it rose to Rs. 48,111, highest record price so far reached. After the war it began to decline and came as low as Rs. 8,000 in 1926. With the revival of trade and business it gradually improved and within a couple of years more than doubled itself. In 1937 the highest price fetched was Rs. 32,000, and the current price is in the neighbourhood of Rs. 43,000.

Prior to the Great War of 1914, trading on the Bombay Stock Exchange was confined to a few scrips, particularly of cotton textiles, ginning and pressing companies. The organisation of the market was not at all satisfactory and

1 Vide Appendix VI.

no distinction was made between cash and forward scrips as any scrip could be dealt with for forward settlement. There was no restriction on the public from entering the hall and this resulted in overcrowding. Many times clients were found doing business themselves and even hawkers, beggars and pick pockets were also found. Cheque system not being developed, payment was made by cash and as there was no system of Clearing House it entailed heavy work on the date of settlement. A great deal of irregularity in the method of dealing was noticeable as there were no uniform contract notes, no brokerage rules nor any scale of commission. In short the method of trading was highly disorganised and unregulated.

Calcutta Stock Exchange Association :—

Transactions in Government Securities used to take place at Calcutta as early as the end of 18th century and much before the establishment of the present Calcutta Stock Exchange. In various papers, such as ***Englishman***, quotations of shares and securities of various banks and joint stock companies were found. Gradually by the sixties, stock-business reached considerable proportions. In daily money market reports quotations of no less than 91 joint stock companies were found in the year 1864. Greater share was enjoyed by tea companies and jute shares which form the principal counter in modern times were conspicuous by its absence then. But at that time there were no rules for the guidance of brokers and business was done in an unorganised manner. The centre of their activity was under a *Neem* tree on the site where now stands the offices of the Chartered Bank of India and Messrs James Finlay and Company. Business was done on cash basis.[1]

Foundation of the Association :—

In the year 1844 James Finlay & Company built their premises and in 1905 Chartered Bank also began to build. Then the operations of the brokers were carried on in the neighbourhood of the present Allahabad Bank. Still they had no roof over their heads and business was carried on in the open area and in the dealers' offices. Brokers very soon realised the indignity and inconvenience of trading in public places and Indian brokers approached the European brokers, representing the firm of Messrs. Place, Siddons and Gough, and requested them to join hands in starting an association as early as possible. In 1908 an Association was founded under the name and style of the "Calcutta Stock Exchange Association" at No. 2, New China Bazaar Street (now known as 2, Royal Exchange Place) through the enthusiastic endeavours of Mr. Overrend of Messrs. Place, Siddons and Gough and Babu (later Rai Bahadur) Baldeodas Nathany Dhoodoowala. At the beginning the number of members was 150 and a sum of Rupees 3,525 was raised for furniture and electric installation.

First Committee :—

The first committee of the Association consisted of nine members, 5 Europeans and 4 Indians and for a number of years the supreme positions of the President and Secretary were held by the members of the firm of Messrs. Place, Siddons and Gough. Babu Baldeodas became the Honorary Treasurer and occupied his position till his death 12 years later.

This is how a beginning was made of an organised market for dealing in Stocks and Shares at Calcutta. Though the Calcutta Stock Exchange had to encounter a number of difficulties particularly that of proper funds, yet it cannot be gainsaid that it has made rapid progress. Gradually the finances of the association also improved.

1, Stock Exchange Official Year Book.

During the great war of 1914-18, due to boom conditions prices of securities took new turns and gave an impetus to Stock Exchange transactions. Considerable business was transacted during the period of war and a necessity for its registration was felt. On June 7, 1923 the Association was registered as a corporate body with a legal entity of its own with the objects given in its memorandum of association.[1] On the eve of its registration it had a membership of 210 firms and 442 individuals. It was registered with a capital of Rs. 3,00,000 divided into 300 shares of Rs. 1,000 each.

The Association is controlled and managed by a Committee which originally in the year 1908 was composed of only 9 members consisting of 5 Europeans and 4 Indians. In 1913 its personnel was increased to 11, consisting of 6 Europeans and 5 Indians. In 1918 the composition of the Committee was resuffled and the number of its members was increased to 12 consisting of 4 Europeans, 4 Marwaris and 4 Bengalees ; in 1921 two members elected from other Indian Communities were added to the Committee, thus raising the number to 14. In 1939 two further members from other Indian Communities were added to the Committee. The election takes place every year in the month of December and then various sub-committees are formed and office-bearers elected from the members of the General Committee for the conduct of the specific aspects of the Association's business.

(B) Development of Security Market in India :—

The development of security markets in India may be studied in three periods :—

(i) The Great War of 1914 and after

(ii) The year 1929 and after

(iii) The present war.

(i) The Great War of 1914 and after :—

Before the outbreak of the war, dealings on our Exchanges were mainly confined to Government Securities and very little business was done in industrials. Before the war the condition of the Share Markets was not desirable as due to failures of various banking companies, particularly with the closure of the Indian Specie Bank, the Share Markets received a heavy blow and many brokers were compelled to close their businesses, and a panic unprecedented in its history was created at the Bombay Stock Exchange. At the outbreak of the war a general feeling of pessimism prevailed, though later the success of allied powers inspired more hopeful sentiments. Trade became brisk. Indian imports of manufactured articles from England ceased, as it confined itself to the production of war materials. Various new companies were floated and their shares were oversubscribed. An interest to deal in Share Markets was stimulated and share values soared up,[2] particularly because of the high prices for the products of industries due to the shortage of output and increased demand. The war brought immense wealth to the people of the country as industries showed huge profits. Speculation became rife and the Share Market soon became the cynosure of all eyes as everybody, whether official, tradesmen, clerks and others, were attracted towards it with a view to get rich quickly. Membership of the Exchanges became costly, so much so that the value of the card of the Native Stock and Share Brokers' Association jumped from Rs. 2,900 in 1914 to Rs. 48,000 in 1921. But this boom was soon over by about October, 1921 and thereafter a slump set in. There was a deflation of currency and the anticipated prospects were not realized. Imports began to pour into

1. Appendix I.
2. Vide Appendix VII.

the country and soon the Indian industries were faced with the competition of foreign manufactures and one after another a number of companies were liquidated.

During this period two more corners occurred at the Bombay Stock Exchange. In 1918 a corner took place in Standard Mill share. The rates were pushed up from Rs. 1700 to Rs. 2400. Only five members defaulted with total liabilities of six and a half lakhs and their cards were sold off. Again in 1919 another attempt was made to institute a corner in the shares of Madhavji Mills. The price of the share advanced considerably. Forward dealing was suspended and the settlement price was fixed. Nine members defaulted, two of them compounded and seven cards were sold off. The Board was empowered to fix maximum prices. Maximum prices of certain scrips were fixed in November, 1919.

Bombay Stock Exchange Ltd.:—

Another Stock Exchange was started in 1917 in Bombay by influential persons of repute who were dissatisfied by the working of the Native Shares and Stock Brokers' Association unde. the title of Bombay Stock Exchange Ltd.

It was incorporated in 1918 but could not work for a long period. When the boom period was over, this Exchange made an offer in August, 1920 to the Native Share and Stock Brokers' Association Bombay for amalgamation and showed its willingness to pay a fee of Rs. 30,000 for each of its members but the Association rejected the offer and then ultimately the Exchange had to close down its doors.

After the boom of 1920:—

After the boom, depression set in and fall in the values of shares resulted in a number of corners and crises at the Bombay Stock Exchange. Public opinion in Bombay became adverse to the working of the Exchange. The main criticism advanced against the Exchange was that the main function of a Security Market in directing the flow of capital into investment was neglected by the Exchange. Thus on 14th September, 1923 a Committee was appointed to enquire into the working of the Exchange. The Committee submitted its report on 9th January, 1924. But no action was taken to improve the working of the Exchange.

Offer of a Charter to the Native Stock and Share Brokers' Association:—

As the recommendations of Atlay Committee did not materialise, there still remained some dissatisfaction with the practices of the Native Share and Stock Brokers' Association. Over and above this a serious crisis took place in the year 1925. As such Government made an offer to grant a Charter to the Association on 21st July, 1925. By this offer the Government desired to assume authority to control the rule making power of the Association and in return grant to the Association, a Charter or Monopoly of dealings in securities for forward delivery. This would have protected the Exchange against rival Exchanges which might be started. But the Association in its meeting on 25th August, 1925 decided to reject the offer as it would in no way prevent the occurrence of corners and crisis. There is not the least doubt that had this proposal been accepted, it would have given added weight and prestige to the Association.

The Security Contracts Control Act 1925:—

When the offer of Charter was not accepted, the Government of Bombay with a view to control the Exchange by legislation and thereby giving protection to the public, presented a Securities Contracts Control Bill on 29th September, 1925 to the Legislature. In the Bill the Government proposed to assume power to add to, amend, vary, rescind and formulate rules. The Bill was introduced with a view to safeguard the interest of the investing public

and was passed on 29th October, 1925. Government sanctioned the rules and recognised the Association and the Act came into force from 3rd June, 1927. The Act applies to the city of Bombay and Ahmedabad. Any Stock Exchange desirous of being recognised should present a written application to the Governor-in-Council, and submit its rules and regulations for the control of transactions in securities other than ready delivery contracts for approval. The Government is at liberty to grant or refuse such recognition. The Act has also empowered the Government of Bombay to withdraw the recognition given to a Stock Exchange at any time. Under the Act any alteration in the rules must be sanctioned by the Governor-in-Council. All contracts other than ready delivery contracts are void, under the Act, unless made subject to rules approved by the Government.

(ii) The Depression and After :—

In 1929 there came a world crises. Prices fell all round and for some time forward dealings were suspended at the Bombay Stock Exchange. Then came the year 1931 which will long be remembered as one of the blackest in world's economic history. The crisis began in 1929 and developed in this year. There was plenty of unusable money and the factors responsible for this world-wide depression were mal-distribution of world's gold supplies, heavy war debts and raparation payments, uneven production and high tariffs. The situation further deteriorated on the abandonment of gold standard by England in September, 1931. Above all there came in, at the same time, the Civil Disobedience movement in 1930-32, which resulted in a serious dislocation of business activities, and in an all round general fall in prices. A serious crisis developed in the year 1933 with the failure of an important house of cotton Mill Managing Agents—Messrs. Currimbhoy Ebraham and Sons. Ltd. All dealings on Forward Account were suspended for a period of seven weeks. All the companies under their management failed with a consequent loss of huge amounts of capital. People who were in the know of things took advantage by making heavy short sales. The crisis was not due to the weak financial position of the companies but was due to day-light jugglery on the part of managing agents. The Indian Companies Act was very liberal and permitted practices which were very detrimental to investors. Thanks to the Indian Companies Amendment Act, 1936, which has brought the Managing Agents under control. A special fund of 3 lakhs was created by voluntary contributions for the protection of the interest of the bonafide sellers.

The years 1934 and 1935 saw a gradual movement towards economic recovery in India. "The steady decline in the general level of prices which commenced in the latter part of 1929 has now definitely ceased and an upward tendency appears to have set in. There is evidence also that dispartty between the prices of agricultural and of manufactured commodities which had so seriously affected the purchasing power of the great mass of the people of India is now less marked than before and that a more balanced price relationship is probably within sight," thus observed His Excellency the Viceroy while giving a survey of the economic conditions in India when he addressed the annual meeting of the Associated Chambers of Commerce at Calcutta in December 1935. India in common with other primary producing countries of the world, advanced another step forward on the road to recovery in 1936. Improvement was particularly marked in the prices of agricultural commodities, which helped to increase purchasing power ; and there was a definite tendency towards a better balance in the price relationship between agricultural commodities and manufactured goods. But in February 1935, the improvement in share values was checked, particularly due to a sale by Tata Power Company of its 500 forfeited shares for forward delivery. People who were in the

know of things heavily speculated and there was an abrupt fall in prices. It was very undesirable that a Company should have sold its own shares for forward delivery instead of inviting applications from the public or offering to the existing shareholders *pro rata*, a provision now inserted in the Indian Companies Amendment Act 1936. Then came the Italo-Abyssinian conflict which threatened the Share Market but timely action was taken by the President Bombay Stock Exchange and the crisis was averted.

Second Committee at the Bombay Stock Exchange :—

In 1936 a fresh crisis developed due to an attempt on the part of a few professional jobbers to manipulate the market in a way so as to smash the prices and cause panic. The forward market was suspended. There were three failures in December settlement whose total liabilities amounted to over Rs. 2.3 lakhs. These failures led to a public clamour and a demand for help from the Government. Thus the Bombay Government announced the appointment of a special committee to enquire into the organisation and working of the Stock Exchange and to consider whether any modification were desirable in the interest of the investing public. The Committee consisted of Mr. W. B. Morison, of the London Stock Exchange, Sir Sorabji Pochkhanwala and Sir Rahimtoola Chinoy. The Committee after examining a number of witnesses and also considering the various representations received from Commercial bodies, submitted its report. The Committee recognised the necessity of legitimate speculation and found it difficult to draw a clear line of demarcation between legitimate speculation and reckless gambling.

Madras Stock Exchange Ltd. —

The first Stock Exchange in Madras came into existence on 6th April 1920. It had about 100 members but of them 25 were working members. The card of admission as a member cost Rs. 1,000 besides there was an annual subscription of Rs. 100. Each working member had to deposit a security of Rs. 3,000. Dealings chiefly consisted in mill shares but the business never prospered and the number of working members gradually fell to three or four. The Stock Exchange was therefore closed in the year 1923.

Again in the year 1937, the rapid industrial development and the consequent growth of investment habit led to its revival by the efforts of Mr. C. M. Kothari. At the begining of the reorganisation two markets functioned. One was the Madras Stock Exchange and the other was the unorganised market in which brokers made their own rules. This unhappy state of affairs did not last for more than a month after which the two markets combined.

At present there are two kinds of members, Founder members and Ordinary members. The founder member has to pay an admission fee of Rs. 500 and ordinary members Rs. 1,000. They have to pay a deposit of Rs. 5,000 snd an annual subscription of Rs. 25. Both cash and forward business is transacted. It is mainly a local market and business in shares of about 90 companies apart from Government securities is transacted at the Exchange. Of these only 19 companies are listed on forward list, which comprises of seven textile mills, seven plantings and five miscellaneous companies. Business in shares of a quite a large number of miscellaneous companies including banks, public utility, cotton mills, cement, sugar, paper, tea, rubber companies is also transacted at the Exchange. The Exchange ranks third in importance after Bombay and Calcutta.

Indian Stock Exchange Ltd. :—

A new Stock Exchange under the style of the Indian Stock Exchange Ltd., was opened in Bombay in February, 1938. The Association is limited by guarantee. Each member undertakes to pay Rs. 100 towards the loss and

an annual subscription of Rs. 120. The New Exchange has a strong and influential Board of Directorate consisting of Sir Chunnilal B. Mehta and Mr. Hoosembhoya, Laljee, among others. One of the main reasons for the opening of the new Exchange was that the membership of the old Exchange was limited and the members were not allowed to do any other business than that of a share broker. Though the Government has not recognised the New Stock Exchange, forward business is transacted on its floor. Forward delivery contracts of the new exchange are, therefore, technically void under the Bombay Securities Contracts Control Act, 1925. The Articles of Association of the New Exchange has also made a provision for trading in shares of companies registered outside Bombay.

The coming in of a new Exchange at Bombay cannot be objected on ground of principles provided enough business to justify its existence can be commanded. At various other places of the world like New York, London, Paris, Berlin, we have two exchanges but their functions are complementary rather than competitive, but seeing the peculiar conditions of India, where share business has not developed to a very great extent two exchanges cannot command enough business and hence the two exchanges at one place can be aptly described as the two rival institutions. The exchange trades in the shares of all joint stock companies whether they are found in Bombay or outside. Thus shares of Calcutta, Madras, Delhi etc. are also traded at the Exchange. There are at present about 75 members. Shares of about 115 companies are listed for trading out of which forward business is done in 16 companies. Inspite of the fact that most of the popular scrips of various places are lisied on the exchange the business transacted is insignificant.

The Bengal Share and Stock Exchange Association Ltd. :—

We have seen in the first part of this chapter that Calcutta Stock Exchange Association carries on only cash business. This absence of dealings on forward delivery basis led to the establishment of another Stock Exchange at Calcutta in 1937 with a capital of Rs. 5,00,000 divided into 500 shares of Rs. 1,000 each. The Committee of members consisted of 14 Directors and one Chairman. It was intended to conduct the Exchange on the model of the Bombay Stock Exchange. Forward trading in certain securities was introduced on a basis of fortnightly settlement.

Ahmedabad Stock Exchange. :—

The Ahmedabad Share and Stock Brokers' Association was recognised by the Government of Bombay on 1st May, 1939 under the Securities Contracts Control Act, 1925. This exchange has taken the Bombay Stock Exchange as its model and therefore the rules are practically the same. A new member has to purchase a nomination and deposit a sum of Rs. 5,000 in cash or in approved securities with the Association. The Exchange mainly deals in the shares of local textile mills.

The Punjab Stock Exchange Ltd. Lahore :—

For many years Upper India was without any Stock Exchange. In the twenties of this century attempts were made by several influential persons but failed. In the year 1934, Lahore Stock Exchange was formed by about half a dozen brokers. In 1935 another intitiative was taken by Sardar Balwant Singh who succeeded in establishing the Punjab Stock Exchange Ltd. in January 1936. The capital of the Exchange is Rs. 1,00,000 divided into 100 shares of Rs. 1,000 each. This exchange has taken over the Lahore Stock Exchange. The entrance fee is Rs. 500 and a monthly fee of Rs. 15 for local members and Rs. 5 for outstation members. Total number of companies represented by securities quoted is about 60, and the business is only on cash basis.

U. P. Stock Exchange Association Ltd. :—

It was inaugrated on 23rd March, 1940 by Sir Horamsji Mody. The rules of this Exchange are modelled on the Calcutta and Bombay markets. The authorized capital of the Association is Rs. 50,000 divided into 100 shares. The Board of management consists of a committee of 6 members. At present there are about 30 members. Membership of the Exchange is limited to 50 and 35 seats were taken up in the same year, some of them by firms of brokers who are already members of the Calcutta Stock Exchange. In the first instance the Committee of the Association admitted for transactions in Ready Delivery contracts about 15 local shares and 10 outside shares which are actively dealt in at other Stock Markets. Further admission of shares is made at the application of the members. The forward list is now limited to six shares only, Tata Ordinary, Indian Iron & Steel, British Indian Corporation snd Burmah Corporation. The incorporation of the British India Corporation and Burmah Corporation in the forward list howsoever will not in practice mean very much as the shares are too small in price to offer scope for the substantial fluctuations.

Hyderabad Stock Exchange Ltd. :—

Recently in the year 1943 a Stock Exchange came into existence in Hyderabad. The Exchange has been recognised by the Hyderabad Securities Contracts Regulation, which is designed to regulate and control contracts for the purchase and sale of securities in the State. Before the actual establishment of the Exchange, the Government of Hyderabad appointed a Promoters' Committee. The Exchange started to function with 45 members and at present dealings are allowed only in 25 listed companies.

(iii) The Present War (1939) :—

On 1st September, 1939, Germany invaded Polond and consequently Great Britain and France declared war against Germany on 3rd September 1939. The war has caused wide repercussions in all spheres including the Stock Exchange where abrupt fluctuations in prices are noticeable. In a very short period the world switched over from a peace-time to war-time mentality and with it numerous changes in our habits, our economy and our methods of business have occurred. Its effect is not only confined simply to a change in outward appearnces e. g. an increase in the number of uniforms and motor vehicles visible on the street but the change goes much deeper than that. Every private citizen, every businessman is obliged to adjust his ideas to the situation. There arose a necessity to moblize the entire economic resources for the prosecution of the war and this made a general dislocation of normal economic life inevitable and with the intensification of hostilities and the consequent dislocation of trade and transport, the various control measures, such as rationing, exchange control and control over industry, labour and finance were applied with increasing vigour. On the declaration of war, hectic fluctuations were witnessed on all the Exchanges of the country and prices improved all round. But in May 1940, surrender of France affected Stock Exchanges adversely. Indian investors were found nervous and Stock Exchange authorities had to take special measures to control the trouble. The Calcutta Stock Exchange closed for six weeks from 20th May and the Bombay Stock Exchange which closed on 22nd May, reopened three days later, when cash transactions were resumed, though forward trading was suspended. In Madras the authorities allowed trading only in local shares and the U. P. Stock Exchange also ceased functioning. On 14th June shares on the forward list were transferred to cash section and the Governing Board of the Bombay Stock Exchange fixed minimum prices for all shares and special rules for the settlement of transactions in a few specified shares were also formulated. At the end of

the month the Calcutta Stock Exchange also decided to reopen for ready business in gilt-edged and other fixed interest securities.

In the year 1941, the far eastern situation and the passing of the Lease and Lend Bill affected the Stock Exchange markets and though conditions were favourable in the first one and a half months of the year, the situation weakened in the later half of February. The quite unexpected news about the German invasion of Russia in the month of June, 1941 brought about an upward movement in prices on the Stock markets. Then came the order freezing the Japanese assets which gave a strong fillip to the bullish sentiment in the textile group of shares. This upswing in prices continued with intermittent reactions right upto 7th December, 1941, when Japan shocked the world by its treacherous attack on the far eastern possessions of the Allied Nations. The later development affected the Calcutta Stock Exchange to a great extent and an emergent meeting of the Association was held on 8th December, 1941 and minimum prices[1] were fixed for some of the speculative shares. Minimum prices were also fixed at the Bombay Stock Exchange on 15th December in the same year.

The year 1942 was one of the most difficult ones in the history of the Indian Stock Exchanges. It witnessed a slump of the worst type since the outbreak of war in September, 1939. Due to unfavourable war news and the approach of war to the Indian borders a severe blow, which surpassed the one that occurred in the summer of 1940 consequent upon the debacle of France, was received by Indian Equities. Japan's success in the Far East, sinking of '*Prince of Wales*' and '*Repulse*' and the fall of Singapore unnerved the market and shook confidence to a very great extent. This brought about a very steep fall in share values inspite of the fact that Japanese revocation in the Far East opened up limitless possibilites for increasing the output of Indian industries. This created a necessity of extending the sphere of economic controls to the Stock markets also. The authorities of the Bombay Exchange were empowered by the local Government to institute a system of minimum prices. This was how the preliminary step taken by the authorities of the Calcutta and Bombay Stock Exchanges came about and it helped somewhat to stem the downward trend in prices. But this measure could not solve the difficulties of the Bombay Market where matters were of a rather complicated nature owing to the operation of forward trading. This created a necessity of closing forward trading and it is for the first time in the history of the Bombay Stock Exchange that forward trading was suspended indefinitely from 15th October, 1942. This is an important land mark in the annals of the Exchange.

The year 1943 was on the whole, quite a favourable one to the Indian Stock Exchanges. Throughout the year, there was an abundance of money seeking investment as also ample opportunities for scientific and profitable investment. Much steadier trend in prices was noticeable and appreciations in the values of shares have been no less striking. But Mahatma Gandhi's fast for 21 days in the month of February affected the markets—particularly the Bombay Stock Exchange adversely. The year was full of Government's anti-inflationary measures which brought about a sudden fall in prices in the end of May, 1943. An Ordinance was issued on 17th May of the year under which 93⅓ per cent of the chargeable profits were to be paid to the Government instead of 80 per cent. Of this 93⅓ per cent, however, 20 per cent represented a deposit repayable to assessees after the war together with an interest of 2 per cent. This ordinance thus immobilized a greater portion of the profits available for distribution. The Capital Control Order was introduced with a view to regulate the flotation of new enterprises and check the growth of companies. Above all came the Government's scheme to control the cotton textile industry. All these measures affected the values of equities adversely and

1. Vide Appendix VIII.

unnerved the market operators. The prohibition of *Budla* in the month of September, 1943, gave a further blow to the Stock Markets. Prior to this month though Bombay Stock Market was without forward business but as a matter of fact it could not work without *Vaida* business and sooner or later some device was found out to carry on forward business directly or indirectly. When forward business was suspended, contracts were carried over from one period to another. But in September a ban was placed on *Budla* and Stock Exchange authorities were prohibited from providing any facility for *Budla* transactions.[1] Time delivery was restricted to one week only. All these measures were regular obstacles to the smooth working of the Exchange during the year. The ban on forward trading in cotton, dividend limitation measures, cloth control order, restriction on company flotation and measures to control speculation on Stock Exchanges, all were responsible successively for the disorganization of Stock Markets during the year.

But the year 1944 started with perceptible signs of robust optimism. The sentiment of the market brightened as the year began due to the growing pressure of the idle funds in the hands of those who have made or are continuing to make enormous profits since the outbreak of the war. The Budget proposals of the year including amongst others, the absorption of the excess profits by way of increased income-tax and compulsory deposits leaving only the standard profits for distribution, led to a considerable fall in the values of equities particularly of textile shares due to poor standard years.

In short it may be noted during the course of these five years of the war that the Stock Exchanges in India have been able to withstand the shock of the war much better than was expected. This has been made possible mainly by the cheap money policy of the Reserve Bank of India brought about by the pegging of the Bank rate at 3 per cent. The Stock Exchange authorities have also been prompt in their own actions and have thus saved their respective Exchanges from disaster and collapse on various occasions. Various control measures of the Government affected the markets adversely at various times, but also provided a corrective to the price movements during periods of political impasse.

(C) War-time Measures :—

It is worthwhile to note the various measures adopted during the course of the war with a view to safeguard the interest of the investors and prevent unhealthy speculation and extensive price-fluctuations. At present Stock Exchanges all over the world are under war-time control and the international service rendered by the Stock Exchanges has practically ceased. The various war-time control measures may be studied under the following heads :—

(i) Prohibition of Forward Dealings :—

The forward market of the Bombay Stock Exchange—the only market permitting forward dealings—was closed in June, 1940. Restricted forward dealings were permitted in October, 1940 and were again suspended on 7th

1. Budla under the Ordinance is defined as a contango and a backwardation, and any other arrangement whereby the performance of any obligation under a contract to take or give delivery of securities within a stipulated period is postponed to some future date in consideration of the payment or receipt of interest or other charges. The Ordinance further provided that no Stock Exchange shall after the 24th, September, 1943 permit or afford facilities for :

(a) the transaction of Budla

(b) the making of any contract other than a Ready Delivery contract which has been defined as a contract which must be performed by the actual delivery of or payment for, the securities specified therein on a date not later than the 7th day (or if the 7th day happens to be a holiday, the business day next following) from the date of the contract.

(c) the carrying out of settlement of Budla transactions or any contract other than the ready delivery contract

December, 1941 and were completely abolished in the middle of October, 1942. Though forward trading was prohibited at the Bombay Stock Exchange, yet the business was carried on under the disguise of *Budla* and Government had to ban it under Defence Regulations. Forward market in India has now been closed on the experience gained from the working of the London Stock Exchange. Before the war, dealings on the London Stock Exchange were made *for the account* and bargains were settled once a fortnight. The facility of carrying over the bargain to next fortnightly account was available. Option dealings were also permitted. But at the outbreak of the war it was felt desirable to restrict new bank loans and also to prevent speculation which was thought undesirable in abnormal times. Thus at the suggestion of the Government, the Stock Exchanges introduced new rules abolishing all option dealings and suspending forward transactions. Fortnightly accounts were abolished and stock had to be delivered by the seller and payment made by the buyer within five days of the date of bargain.

In the present abnormal times of war-time economy the closing of forward trading at the various Stock Exchanges of the world is a move in the right direction as it not only checks speculation and prevents wide fluctuations but at the same time makes the position of the speculators secure by avoiding Stock Exchange crises during the period when political disturbances threaten to upset the minds of the speculators considerably.

(ii) Minimum Prices for Shares and Securities :—

Government securities constitute a common form of collateral for bank loans ; and any serious depreciation in their values will oblige the banks either to call in their loans or to require their customers to put up additional collateral. It is therefore felt desirable that their minimum prices should be fixed, so that they may not fall beyond a certain limit. An extra-ordinary Gazette of the Government of India of 2nd March, 1942, prohibited dealings in Government securities below fixed minimum prices. [1]

The fixation of minimum prices no doubt benefited the institutional investors like big insurance companies. In the absence of minimum prices these institutions were unwilling to take up Government securities as they had no idea as to where the downward trend would stop. It has also facilitated the institutional investors in their valuation of investments in Government securities and has avoided the necessity of maintaining a substantial amount of reserve to meet any depreciation in their values and has provided a greater margin of profit for distribution to shareholders and policyholders. It has another useful function to perform that in times of panic when fear overrules the market and the investors lose their presence of mind and are willing to liquidate their holdings at the best available price, the fixation of minimum price provides a support and imparts a sense of stabilility and equilbrium. At the same time it creates a black market in government securities, unless the government is prepared to support the market at minimum prices and thus it is deterimental to the small investors. As Mr. K. R. P. Shroff, President, Bombay Stock Exchange in his annual speech delivered at the Annual meeting of Association in 1941, while quoting a passage from the financial News, London, observes "Minimum prices alone will not suffice to ensure liquidity. In themselves, indeed, they are destructive of it ; for their very purpose is to maintain values by liquidity sacrifice. The experience of equity shares shows in fact that when the trend of the market is persistently downward, the price of liquidity is continuous depreciation. The affect of inserting a peg in a falling market is to close that market as surely as if the Stock Exchange doors were bolted and guarded by a sentry with a fixed bayonet. Support is useless without a bottomless purse, since it does not stop selling but aggravates it, on the principle that where the

1 Vide Appendix IX.

meat is, there will the eagles be gathered together." 'Price stabilisation at a particular level thus, is no better cure for inherent market weakness than pegging a thermometer at 'normal' is a cure for fever.[1]

Not only prices for Government securites, were fixed but "floors" were also fixed for certain industrial scrips both at the Bombay and Calcutta Stock Exchanges. In the first instance minimum prices were fixed on 14th June, 1940 for certain scrips on the forward list, but they were withdrawn and again fixed in December, 1941,[2] on the declaration of war by Japan. But these prices could not be maintained and shares changed hands at appreciably lower prices. Tata Deferreds *e. g.* were sold at Rs. 1,100, although minimum price was Rs. 1,600, Ordinaries likewise were quoted at Rs. 60 less than the minimum price. A strong protest was raised by banks, investing public and the brokers and as a result minimum prices were withdrawn.

(iii) Control of Capital Issues :—

Steps were also taken by the passing of the Control of Capital Issue Order to restrict the raising of new capital. It was desired to prevent unnecessary capital expenditure and also to direct new savings into the various war loans. Application for permission should be made to the Examiner Capital Issues, Finance Department containing a description of the objects of the company, a statement of the amount of capital and debentures if any, that the company desires to issue, and of the form such issue will take and then shares whether fully or partly paid up and a general account of the terms of expenditure to which the proceeds of this capital issue will be utilized. The aims of the Government behind this order were made clear in a Press Note of 21st, June, 1943.[3]

The press note emphasises three main objects behind the passing of the Capital Control Order :—

(1) to check the growth of industries which are not necessary for the prosecution of the war and of those which stand little chance of survival in the post-war period and also to prevent other undesirable practices such as the reconstitution and recapitalization of concerns on the basis of their present abnormal profits to the deteriment of an undiscriminating investing public.

(2) to make available to the government money to be invested in government loans and thus act as an anti-inflationary measure.

(3) to divert money from speculative uses and loans to Stock Exchange which are 'definitely anti-social.'

There is not the least doubt that under present conditions the danger of host of mushroom companies making their appearance is very real and in the post war period there is also a likelihood of a number of failures, as it shall not be possible for them to survive in the keen competition which will inevitably follow the conclusion of the war. The capital market no doubt by this scheme shall be left free for government borrowing but much depends on the motives of the Government with which permission is given for new flotations. Government aims at checking the growth of mushroom companies but in many cases permission may not be granted even to those companies which are desirable in the best interest of India as its development might give a blow to the industries in Britain after the war and may reduce Britain's industrial supremacy. In promulgating this order the Government of India has taken a short-range view of the production possibilities of the country. It is also doubted as to what extent this measure is anti-inflationary. If permis-

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1. Annual Speech of Mr. K R. P. Shroff, President, Bombay Stock Exchange, 1942,
2. Vide Appendix VIII.
3. Vide Appendix X.

sion to float new enterprises is not granted, it is not necessary that money shall be available for government borrowing. On the other hand the money which might have been invested in new enterprises, may be diverted to speculative market and the very object of the government may not be fulfilled.

The main object of capital control order is to prevent the utilization of funds and scarce materials and services for purposes which make no positive contribution to the prosecution of the war. But in doing so the government must not refuse the claims of those companies which cannot show prospects of pronounced and quick results but which must be formed now for the post-war industrial development. Though the government in another Press Note of 28th April, 1944 has made it clear that a linient view shall be taken of such industries, provided a great bulk of capital raised is invested in Defence Loan. But no assurance is given that the money so invested will be released for use when required. This condition is likely to discourage company flotations. Besides there is nothing in the scheme which prevents a foreign manufacturer from floating a company abroad and starting an industry in this country to the detriment of Indian enterprise. It is, therefore, very necessary that some sort of assurance should be given that the post-war industrial development especially in key industries, would be the exclusive sphere of Indian enterprise both in respect of ownership and control, as Mr. Wal Chand Hira Chand in a press note observes 'that the post-war industrial development of India should be the sole concern of Indians and every scheme should be entirely Indian, capital, management and control held cent per cent by Indians."

(iv) Foreign Exchange Control :—

In Britain Exchange Control regulation was also adopted, which affected dealings in securities. British investors by this order were not allowed to buy securities outside the sterling areas as no foreign exchange was made available to them. Early in the war all British holdings of overseas securities expressed in various currencies had to be registered with the Bank of England from time to time. Various vesting orders were issued by which holders were compelled to sell their securities to the British authorities at a fixed price, which was usually based on the most recent market price. Dealings in such vested securities were suspended. A vide range of Canadian and American securities were thus commandeered and resold by the British Government in Canada and U. S. A. In this way British Government obtained Canadian Dollars, while it only had to pay the original holders in sterling and Britain's dollar resources were thus strengthened.

India on the other hand, was able to repatriate its sterling loans. On 7th February, 1941, a notification was issued by the British Treasury which was followed by a similar notification by the Government of India on the 8th of the same month for the compulsory acquisition of India's sterling loans held by British residents and the residents of British India. The order referred to certain terminable loans which were then outstanding and it was made obligatory on the part of the holders to exchange, their holdings in Indian Sterling loans into their counterparts in rupees or have cash paid out for the loans at fixed prices.[1]

1.

		Price per Security £ 100 Nominal Value.	Rs.
3 per cent	1949-52	Indian Loan	1,330-12-0
3½ per cent	1954-59	" "	1,370-14-0
4 per cent	1948-53	" "	1,421- 1-0
4½ per cent	1950-55	" "	1,467-14-0
4½ per cent	1958-68	" "	I 504-11-0
5 per cent	1942-47	" "	1,397-11-0

A notification was also issued by the Reserve Bank of India on 10th March, 1941, under Rule 94, of Defence of India Act, requiring the holders of American Securities to surrender the same to the Reserve Bank at stated prices.[1]

(D) The two Committees :—

Stock Exchanges all over the world have been subjected to abuse, criticism and comment by the public and the press. Indian Stock Exchanges too have been commented on by the public more than once. The Native Share and Stock Brokers' Association which is the oldest institution of its kind in India has been a subject of comment on several occasions. In the year 1925, due to the occurrence of a series of corners and crises, a great furore was raised by the public which was very much dissatisfied with the working of the Bombay Stock Exchange. The close of the last war (1914-18) brought about a depression in 1919, which reflected on the financial markets. Indian industries had to meet a harsh competition with European good which were flooded into Indian markets. Prices of commodities, properties and shares came down rapidly. Many of the companies formed during the war came to grief, leading to a huge waste of public money.

"For the Native Share and Stock Brokers' Association of Bombay the years which immediately preceded and followed the termination of the war have been troubled and unquiet and some have seen in the speculation that was rife in the city of Bombay a parallel with the years of the American Civil War. Rising prices attracted the ignorant to speculation. A corner in the market, once an event of rare occurrence, became rare no longer. The manipulation of the market was in practised hands, and many saw in a few months the dissipation of the savings of many years."[2] As a result a resolution was passed in the Legislative Council on the 6th October, 1922 and in pursuance of this resolution a Committee was appointed on 14th September, 1923 with a view "to enquire into the constitution, government, customs, practices, rules, regulations and methods of business of the Native Share and Stock Brokers' Association of Bombay and to investigate any such complaints of the public and to make any such enquiries with reference to any of the aforesaid matters or any other matter appertaining to the aforesaid Association as the Committee may deem proper and thereafter with a view to protect the investing public against the interested or irregular control of business, to formulate such definite proposals for the future constitution, control, direction and regulation of the Association."[3]

The report of the Committee was published early in 1924 along with the minority report of one member Mr. Bhulabhai J. Desai. The report of the majority was mainly directed towards corners. The Committee examined a number of witnesses and made a number of proposals.

As regards corners and speculation the Committee was of the opinion that the criticism against the Bombay Stock Exchange was well founded. The Committee observes in this connection that "the most sinster manifestation of speculation in Bombay is the frequent occurrence of corners in the market, and the policy and practice of the Association with regard to corners appears to us to constitute the head and front of their offending." But this view of the Committee was very severely opposed by Bhulabhai Desai in his minority report when he observes that "it is a matter of common knowledge and also supported by evidence before the Committee that the heavy speculation on

1 Vide Appendix XI.

2 Atlay Committee Report, page 8.

3 Terms of Reference of the Atlay Committee.

the Stock Exchange in the above mentioned years was a part of the widespread effect in India of the conditions produced by the European War. Europe ceased to produce for the time being any manufactured articles except those required for the prosecution of the war and with the stoppage of import into India of such articles, a boom period set in for all industrial enterprises and the public mind was so captured that very little foresight was exercised. Flotations of new companies for different kinds of industrial enterprises were several times over-subscribed and values of the shares of the existing companies went up. Large number of persons engaged in other modes, trades and professions thoughtlessly believed that fortunes were to be easily made on the Stock Exchange, and after the fever subsided, when the depression came and losses occurred there was a discontent for which blame was put upon people other than those responsible."[1] The majority Committee while giving out a narrative view of corners affected at the Bombay Stock Exchange considered that 'there is a great defect in the policy or the management of the market, where such remarkable conditions prevail. It was of the opinion that Rules 26, 26 *k* and 26 *kh* of the Articles were mainly responsible for the happening of these corners one after another.'

The three rules referred here provided as under :—

"26. If the Board finds that something extraordinary has taken place with regard to the delivery of shares as well as with regard to the buying-in and selling-out of shares then the Board will take immediate measures suitable to the circumstances and all the members shall have to act accordingly."

"26k. If a single individual or syndicate of persons enter into sales and purchases of shares (in which forward dealings are allowed) beyond reasonable limits and that if under those circumstances the Board infers that there is going to be a corner in the shares of a particular company or any other fraud connected with the dealings in the said shares, the Board will intervene and fix such rates as they think proper for the said shares."

"26kh. If a corner is declared by the Board then if necessary, application for buying-in shares should be granted only after receipt of the money in respect thereof."

The Committee feels that "the present rule and its application is not in the interest of the public but in the interest of those members of the Association who, on their own account and for their own profits sell shares which they do not possess and which they have no reasonable prospect of possessing." The Committee recommended that one member broker should be allowed to do business for a person only to the extent of 50 or 100 shares, and if this is adopted the man shall be required to employ a large number of members to carry on business for a larger number of shares. By so doing the volume of business will be curtailed because he will not be able to secure so many brokers at a time and this will minimize our risks as it will be divided among a large number of brokers. The rules 26, 26 (k), 26 (kh), should be deleted so that the practice of the Bombay Stock Exchange may be in conformity with the practices at other organized Exchanges. The Committee suggested the abolition of these rules on the ground that a genuine investor never sells what he does not have and if a man does so he must suffer the penalty of his improvidence. No doubt the Association's object is simply to provide a market place for the purchase and sale of securities and does not guarantee the market price of the shares dealt in at the Exchange but at the same time it becomes necessary for the Association to protect its members and the investing public against the consequences of short selling which is a necessary adjunct to Forward Trading. Some people view that Forward trading should be prohibited for good but if it is done Stock Exchange would

1 Minority Report, Atlay Committee, Page 2.

cease to perform its main function *i. e.*, provision of a continuous market. In the official representation to the Atlay Committee, Mr. K. R. P. Shroff feels that "cash business was not a real remedy for checking speculation, that such interference with the freedom of speculation was liable to prove disastrous and that the tendency to an inflated Bull movement would rather be increased." Even if business is confined to cash basis, speculation would not cease for money and scrip can be borrowed. On the other hand Mr. Bhulabhai Desai in his Minority report differed absolutely with the decisions of the Majority. He was of the opinion that an action taken by the Association under Rule 26 is not an interference with the course of free trading, nor is it the fundamental cause of embarrasment in the affairs of the Association. He therefore proposed a new rule in its place empowering the Exchange in times of corners to suspend all future dealings in such shares, to suspend the buying-in rule in those shares and to fix a making up price for purposes of settlement. In fact it cannot be gainsaid that Stock Exchange Association whose aim is 'to promote honourable practices', exists for the benefit of investors and members and without neccssary powers granted to them, it shall not be possible for the Association to maintain that high standard of morality and business conduct that is expected of their members.

Period of settlement :—

As regards the period of settlement, though a number of witnesses proposed a change in the system of settlements on the grounds that if fortnightly system of settlement was adopted, corners would be made more difficult. But the Committee did not find any justification for this suggestion and remarked that, 'there is little force in this contention, for transactions would be carried over twice a month instead of once, and there would be two brokerages instead of one."[1]

As regards outside representations on the management of the Exchange, several witnesses before the Committee had suggested that Commercial Association and banks should participate in the management of the Association. It was rejected by the Committee which was of the opinion that members understand their business much better than any outsider. This was also the opinion expressed by the Royal Commission that was appointed in 1877 to enquire into the constitution and customs of London Stock Exchange. Sir Wilfred Atlay himself had expressed it in clear terms when he visited the Exchange : "to my mind nothing is more ludicurous than any idea of putting a number of shoe-makers among a body of watch makers to manage its affairs". In the same way, it does not seem to be correct that merchants and mill-owners can run a Stock Exchange. Besides members of the Association should enjoy their own privileges as the association is their own private body to safeguard their isterests.

Admission Fees :—

It was noticed by the Committee that in boom times, the public crowded the building. that minor did business upon the floor of the Exchange, that business was done by clients themselves and even access was not denied to hawkers, beggars and pickpockets. The Committee recommended that only the holders of the card and his authorized clerks should be allowed access to the trading hall. The Committee also recommended that the snbscription which had never been increased from Rs. 5, should be enhanced by the Association, as it was unduly small.

The existence of a sub-broker has been viewed by the Committee as the most objectionable feature of the Share Market in Bombay. The Committee

1 Atlay Committee Report, Page 17.

defines it as 'a tipster and a tout'. He is 'a nuisance and danger to the public and must be suppressed'. In case it is not thought desirable to suppress it, it was suggested that they should be brought under proper control. The Minority Committee also favoured the existence of sub-brokers but under proper restrictions. A sub-broker by the minority report was defined as one who canvasses business in return for a share in the brokerage. It is not possible to check convassing successfully but it would be advisable to frame rules so that the number of persons, so employed by any broker are well known to other members and that such a person does not propose to carry on business on his own account as if he were a certified broker.

The next important recommendation regarding Blank Transfer may also be noted. The Bombay Chamber of Commerce and Sir Din Shaw Wacha were in favour of its total abolition. The Committee also did not favour the continuance of blank transfers. In India these blank transfers sometimes pass from hand to hand for months or even years. The Committee also suggested that if total abolition of blank transfer is too drastic, its life must be limited to two months, and in case it is agreed to abolish the blank transfers, the duty payable on transfers should be reduced otherwise forward business would be much handicapped.

Besides, other minor recommendations such as the rigid enforcement of disciplinary and partnership rules, the publication of the rules to be made available to the public, appointment of a non-member paid Secretary, use of a common form of transfer by the companies to be made a condition of listing were also made by the Committee and accepted by the Association.

From the facts it is evident that much of the labour of the Committee was wasted as practically all important recommendations made by the Committee were not accepted by the Association. The recommendations of the Committee did not result in any drastic changes in the constitution of the Association. The Government recognized the services of the Association and was of the opinion that the Association is rendering a signal service to the public. The government mainly agreed with the minority report and agreed to cut down the powers of the Association regarding the suspension of dealings and fixing maximum rates with a view to safeguard the interest of the investors. The government did not take any action on the recommendations and left it to the market. Thus no drastic changes were made in its constitution.

Morison Stock Exchange Enquiry Committee :—

Once more in the history of Bombay Stock Exchange, an enquiry committee was appointed in the year 1936 to enquire into the organisation and working of the Stock Exchange and to consider whether any modifications were desirable in the interest of the investing public. The appointment was the result of a public demand through the press and Chambers of Commerce, because for many years it was felt that a change was desirable. Bombay Stock Exchange witnessed a serious crisis in the first quarter of 1935 leading to inflated prices and subsequent crash and severe bear covering in the third quarter of the same year which led to a suspension of forward transactions during practically the whole of the fourth quarter. This led to a cry for reforms and hence the Enquiry Committee of 1936 was appointed. The Committee was presided by Mr. W. B. Morison of Messrs. Hector Morison and Company, a leading firm of London brokers and the other two members were Sir Sorabji Pochkhanawala Managing Director of Central Bank, and Sir Rahimtoola Chinoy.

The appointment of the Committee was not objected by the Bombay Stock Exchange Association which was not, at the same time, anxious for such an enquiry. Mr. Shroff thinking that the appointment of the Committee will not result in any improvement but simply in the maintenance of the *status quo*

observed that "if the improvement in the working of the Exchange has fallen short of expectation the blame lies elsewhere. An impartial examination of the Bombay Securities Contracts Control Act of 1925 by the present Enquiry Committee will prove that the Act is really unworkable in practice. As the police cannot suppress riots unless their hands are strengthened by the Government, the Exchange cannot prevent any crisis brought about by the manipulative gamblers without the whole-hearted co-operation of the public and the Government by controlling their activities by further legislation." People at the Stock Exchange viewed that their enquiry like the one conducted by the members of the Atlay Committee would bring about no material changes in the constitution, practice and policy of the Exchange but they felt satisfied, as it once more afforded the Association an opportunity to convince the fair-minded but misled public that the Association has always acted uprightly, honestly and in the best interest of the bona-fide investing public."

The Committee examined a number of witnesses and received various representations from various commercial bodies like Chambers of Commerce and various associations of mill-owners and industrialists. The report of the Committee can be studied under three distinctive heads :

(a) Power of the Board to intervene.

(b) Improvement in the working of the Exchange so as to minimise unhealthy speculation.

(c) Improvement of the administrative machinery of the Exchange.

(a) Power of the Board to intervene :—

The Committee was of the opinion that though certain powers are necessary for the efficient working of the Exchange, but the governing board of the Bombay Stock Exchange had certain powers which were neither necessary nor desirable.

(i) Suspension of Selling-out Rule :—

The Committee considered it undesirable that the Board should at any time suspend the selling-out rule as there would never arise any necessity to suspend selling-out rule. The market in event of Bear raids, when the prices are falling or have fallen considerably would correct itself to a certain level, when natural forces themselves would check the downward trend and hence there would arise no necessity of providing a safety to the reckless bulls. It is argued that if suspension of selling-in rule is not allowed, the investors would suffer owing to serious depreciation in the price of securities. Further the Committee agreed that the investor, here refers to the speculative investor who is not in a position to finance his purchases and has taken money to complete his transactions from banks and financial institutions against the deposit of securities. And if he is required to deposit extra margin for the loan he has taken in case the prices fall and if he is not in a position to provide any extra margin, he is precisely in the same position as the man who has entered into liabilities beyond his capacities and there is no reason why he should be saved from the results of over speculation and over-trading. In the normal course of the market 'Bear raids' follow an abnormal rise in prices brought about by 'bulls' and again the natural forces of demand and supply restore the equilibrium and prices take a turn and bulls suffer because of the liabilities they have assumed but cannot discharge and as such there is no need of safeguarding his interest. So far as a genuine trader is concerned, he is not to be affected as the securities likely to be affected by the absence of this power will be confined to a limited number of speculative scrips and on these securities neither the trader nor the banker would like to act. Besides in

actual practice, banks in lending money keep a heavy margin extending up to 50 per cent against loans on securities of this nature.

(ii) Suspension of Buying-in Rule :—

Though the Committee was not in favour of giving power of suspending the selling-out rule, the Committee was inclined to give the necessary power to the Board of suspending the buying-in rule. 'The buying-in rule stands on a different footing,' says the Committee. The Committee pointed out that when an effective corner had been established, the natural forces cease to operate. Instead of the supply and demand based on estimates of fair market value being able to restore equilibrium, the settlement of bargains can be effected at prices which will be dictated by the individual or group of individuals who may have successfully brought about the corner. The effect of suspension would be that the buyers would be compelled to offer reasonable and acceptable terms to the sellers at which they may close their commitments. At the same time Board should not have any power to fix the price at which the bargains may be closed.

The Committee also favoured the view that the Board may be given power to suspend short-selling and close the market in times of emergency whenever it becomes necessary. But these powers are to be exercised only in an absolutely emergent condition when the investors in general, throughout the country are to be protected. These powers in the opinion of the Committee should be exercised with the consent of the Government. Board may have the power to close the market for 24 hours but to close it any further consent of the Government should be necessary.

The Committee wanted to impose this restriction on the closing of the market because there was a "certain lack of confidence in the Stock Exchange and in its administration." The Committee remarked "there is no doubt that to some extent that criticism is based on misconception of a number of factors but there is sufficient evidence to show that it does exist and we consider it a politic to recognize the fact."

*(iii) Compromise :—*Compromise is 'to a small extent responsibe for the existence of unhealthy speculation and over-trading in the Bombay maket.' The Committee therefore proposed that 'a compromise in any shape or form, in order to avoid default, should be prohibited under pain of severe penalties.' It should be made a condition of membership that in the event of a member being declared a defaulter, he shall sign a deed of assignment in a prescribed form, in favour of the Defaulters' Committee and thus making available even the property outside the Exchange to the Defaulters' Committee for the benefit of the creditors.

In order to discourage defaults further, it proposed that failure to fulfil contractual obligations not only to a fellow member but also to a non-member should be followed by a declaration of default. To forge a necessary link in the chain of responsibility it is also proposed that a defaulter's property outside the Stock Exchange should be available for the benefit of his creditors. The Committee suggested very strict and rigid terms for the readmission of defaulters. A member whose default has been brought about by speculation on his own account should not be readmitted under any circumstances. A defaulter who has paid 16 annas in the rupee shall be eligible for readmission if the Board is satisfied that his conduct in other respects gives rise to no cause for complaint. In order that the Board may be enable to deal with the more extreme cases of hardship, it should have power to readmit a defaulter whose conduct is found to be irreproachable and whose failure is proved to be entirely, or in the main due to misfortunes, even if such defaulter has paid up only a portion of his liabilities.

(b) Recommendations to improve the working of the Exchange so as to minimise unhealthy speculation :—

It was pointed out that in India the Bombay Stock Exchange was the only market which afforded facilities for forward trading and people throughout the country often used it as an instrument for getting rich quickly. The facilities provided by the Exchange enabled people to gamble in forward dealings, sell short or buy beyond their means and precipitate crises. Various suggestions were made before the Committee to check speculation such as prohibition of forward business entirely and placing the whole business on a cash basis. This suggestion was not found feasible. The next course open was to control speculation and for this end too, several proposals were made, for instance, no one who does not pay a minimum amount of income-tax must be allowed to enter into forward transactions, the link which enable the switching of business from one settlement to another must be snapped at least three or four times in a year, the monthly settlements might be changed to fortnightly ones to reduce liabilities, a system of deposits might be introduced and so on. The Committee with a view to minimize unhealthy speculation made the following recommendations:

Control of Remisiers (Sub-broker) :—

Atlay Committee in its report described a sub-broker as a 'tipster and a tout, a nuisance and a danger to the public which must be suppressed.' But this Committee simply proposed certain measures to control remisiers. They proposed that a remisier should be required to deposit Rs. 5,000 as a guarantee of good faith and as providing some proof that they are of some financial standing and not entirely without any resources. Besides, an annual subscription of Rs. 200 is to be paid for every remisier registered with the Exchange and such a remisier shall be required to severe his connections with any other business and to produce a clearance certificate from the broker he leaves, if he desired to work as a remisier to another broker.

Speculative Dealings :—

To eliminate unhealthy speculation, the Committee mainly made two recommendations :—

(*i*) Speculative dealing for employees should be prohibited unless they have obtained written consent of their employers.

(*ii*) A system of margins should also be adopted. 'This would act as a definitely restrictive influence on that class of speculation which we are most anxious to discourage, namely speculation conducted by financially weak individuals.'

The company linked the question of monthly or fortnightly settlement with the system of margins and recommended that if a system of margins were not adopted or if it did not have the effect anticipated then 'fortnightly settlement should be instituted.' The view was also favoured by the Bombay Chamber of Commerce which suggested a fortnightly settlement and a minimum scale of brokerage as checks to speculation. The longer the settlements are apart the more inducement there is for speculation.

Minimum Scale of Brokerage :—

The Committee favoured the minimum commission scale to the fixed scale. The then practice of maximum scale brokerage was not thought desirable by the Committee as it resulted 'in severe competition among the members and an uneconomic cutting of the rates of commission charged.'

It was therefore recommended that a minimum scale of brokerage should be established and enforced strictly. Moreover with regard to concessions in

large volume of business it proposed that concessional scale for large business should operate when the business *for account* was in excess of Rs. 10,000 and *for cash* in excess of Rs. 5,000 in one security.

As regards *put-through* business, the Committee recommended that if a member instructs another member to execute any business, the latter should receive his remuneration out of and not in addition to the former's commission and the contract note should state this fact.

Blank Transfers:—

The Committee felt that the existence of a system of blank transfers makes the records of companies registers incomplete, inaccurate and misleading, besides which many persons are put to considerable trouble by reason of the fact that shares are not transferred from their names for many years after they have been sold. The Committee thus recommended that blank transfers should be made a bad delivery and that ready delivery contracts should be also dealt with through the Clearing House. This view of the Committee was not favoured by the Indian Chamber of Commerce. In its view though the system of blank transfers is defective in some ways but taking into consideration that the system has worked well on the whole for such a long time and the curtailment of business as also the inconvenience and delay in transactions that would result from abolition of the system necessitate its continuance.[1]

(c) Improvement of the Administrative Machinery :—

The Committee did not favour any system of outside control which was regarded as 'unnecessary and undesirable' and recommended, that in order to maintain a constant infusion of new blood on to the Committee, that the election should take place annually, and the Association should not have any over-riding powers and its control over the Board should consist only in its power to refuse to elect men who in its opinion were not fit to retain its confidence. Besides the Committee made a few more suggestions and recommended that a right of membership should be regarded as personal and non-transferable, that a member of seven years standing should be entitled tc dispose of his card to eligible persons ; that a condidate for membership must furnish either three surities of the sum of Rs. 10,000 each for two years, or in the alternative a deposit of Rs. 30,000 for the same period ; that the annual subscription should be raised to Rs. 100 for an existing member and Rs. 300 for all new members ; that the privilege of retaining connection with other businesses given to members enrolled before 1926 should be regarded as personal and terminable with the death or resignation of the member ; that a subscription of Rs. 200 be payable in respect of each authorized clerk ; that a bid or offer of stock in the market when the amount is not stated shall be binding to the amount of Rs. 10,000 at the bargain price. The Committee also favoured the reduction of the number of holidays and prohibition of the public from entering the trading hall during business hours.

The Committee also recommended certain amendments in the Bombay Securities Contracts Control Act, 1925. In the first instance the Committee recommended that in the Act the Government should also have power to make rules and to amend rules submitted for its approval and in case the government found that the Board was incapable of discharging its functions with due sense of responsibility, it should have power to appoint its own directors to work with the Board, or if possible, independently of the Board. Such directors appointed by the Government should be given overriding powers so that they might be able to administer the affairs of the Stock Exchange, if the Board continued to maintain its intransizent attitude. Thus it should be only as the

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1 Morison Committee Report

very last resort that the Government should hove recourse to the extreme power of the withdrawal of recognition.

Secondly the Committee recommended a modification in the definition of a 'Ready Delivery Contract' and suggested that a ready delivery contract should be defined to mean a contract which must be implemented by the actual delivey of, and payment for the security specified in such contract on any business day not later than the seventh day from the date of the original contract. Lastly the Committee also recommended that ready delivery contracts should also be subjected to the control of the recognized association as this will ensure a more effective check on the association's rules and regulations.

In brief a review of the recommendations indicates that the Committee made certain important recommendations. At the beginning the Committee made it clear that its recommendations are directed towards "restricting as far as possible the facilities provided for reckless gambling while at the same time leaving the way open for the exercise of what we claim is a perfectly legitimate function of a Stock Exchange." It is taken for granted that "reasonable facilities for speculative transactions are a necessary and healthy part of the machinery of a Stock Exchange, which provides a free market where securities may be bought and sold to the best advantage and without undue delay."

"The difficulty will always exist of so defining what is ligitimate and reasonable speculation as to be able to draw a definite line of demarcation between legitimate speculation and reckless speculation or mere gambling in differences." But confusion of thought should not be allowed either to restrict legitimate speculation or to condone gambling. Recognising that "to stop speculation is impossible the Committee has attempted to ensure that it shall be so conducted as to afford the public the maximum of protection."

Naturally the report has some inconsistency. On the one hand additional powers were given to the Board of Directors, but at the same time much was taken away from it and a good measure of control and suppression was vested in the Government. Denying that this is contradictory, the Committee pointed out that the object of its recommendations was gradually to develop amongst the members a desire for the acceptance of that discipline and the adoption of that high standard of conduct without which it was useless to hope that a Stock Exchange can ever command the confidence of the Government and the public. Similarly it is necessary that the controlling body should not only have undisputed authority to enforce the rules and regulations but should also learn to exercise its powers with firmness and impartiality. "We wish to emphasise that our recommendations are interdependent, and non-acceptance of one may render the remainder ineffective." The cumulative effect of the recommendations, it is claimed, will be to compel members to realise that "their commitments, either for themselves or for their constituents, must be kept within the bounds dictated by ordinary business caution as well as by fear of consequences. If the purpose underlying the report is sought to be ignored or evaded, we can only say that evasion constitutes the meanest and most deplorable form of treachery to fellow members and to the public alike, and when detected should be visited by swift, and condign punishment of the offender. In the last resort, we express the hope that Government would not hesitate to exercise its prerogative and withdraw recognition from the Association."

The Association tried to criticise here and there the recommendations of the Committee but accepted a majority of the recommendations. It rejected the proposals of the Committee regarding the furnishing of security by a

candidate for membership the payment of an annual subscription in respect of authorized clerks, and the raising of the annual subscription for membership.

Government's Action on Committee Report :—

Government adopted most of the recommendations but it did not make up its mind regarding the most fundamental recommendations involving fresh legislation viz. (i) the introduction of a compulsory system of margins, (ii) the abolition of blank transfers, (iii) the reservation by Government of the power to formulate rules, (iv) the suppression of the Board under certain circumstances, (v) and the control of recognized associations for ready delivery contracts.

Decisions on all these points were postponed by the Government as the Government was not prepared to assume authority to regulate the affairs of the Exchange either by the formulation of new rules or by the exercise of over-riding authority. On other recommendations the Government and the Stock Exchange authorities agreed.

CHAPTER III

CONSTITUTION OF THE INDIAN STOCK EXCHANGES.

Recently a large number of Stock Exchanges[1] have sprung up in the country, but it is the Bombay Stock Exchange, being the oldest in the country which occupies a position of supreme importance. It is truly a national institution where securities are dealt in by the people all over the country through the agency of its members. At the same time the Calcutta and the Madras Stock Exchanges are rendering indispensable services to the investing community of the country, as they specialize in certain other kinds of securities which do not find a market in Bombay. In our country localization of industries in various parts has tended to segregate the several important groups of industrial securities in particular Stock Exchanges. For example, Bombay has become the chief market for textile shares ; Calcutta concentrates more on jute, coal, tea, and mining ; Madras mainly confines itself to plantation industries and is mainly a local market ; Ahmedabad too has dealings only in local textile shares ; the Cawnpore Exchange deals in sugar shares, while steel shares are more or less dealt in all Exchanges but the bulk of the business is done at the Bombay Stock Exchange. The Calcutta Stock Exchange, though, it specializes in Jute Mill Shares, has a wide area of operations and offers a large field for selection to the investors in coal companies, tea companies, cotton mills, miscellaneous industrial concerns such a paper mills, flour mills etc., mining companies, sugar, iron, engineering companies, banks, insurance, railway companies, debentures and other municipal and government bonds. It provides facilities for investors all over India by offering greater scope for investment. Calcutta, in fact, is more of an investment market, while Bombay is more of a speculative market.

In the constitution of the various Stock Exchanges in our country may be noted a general similarity of organisation, though their size and importance depend on the size and importance of particular industries. All the Stock Exchanges, except the Native Share and Stock Brokers' Association Bombay, are incorporated bodies registered under the Indian companies Act, 1913, limited by shares or by guarantee, while the Native Share and Stock Brokers' Association, Bombay, or Bombay Stock Exchange as it is commonly termed, is an unincorporated, voluntary, non-profit association and is governed by a Deed of Association of 37 articles and the rules approved and sanctioned by the government of Bombay under Sec. 4 of the Bombay Securities Contracts Control Act of 1925. Like other Stock Exchanges of the country, it has no charter (having refused it when offered in July 1925) no memorandum nor articles of Association. The other Stock Exchanges of the country are incorporated bodies, the liability of their members being limited either by shares or by a guarantee. Being registered and incorporated under the Indian Companies Act, the Stock Exchanges are governed by its provisions, while the Bombay Stock Exchange is free from its encumbrances. The Calcutta Stock Exchange has a capital of Rs. 3,00,000 divided into 300 ordinary shares

1. There are two Stock Exchanges at Bombay, the Native Share and Stock Brokers' Association and the Indian Stock Exchange Ltd ; one at Ahmedabad, The Ahmedabad Stock Exchange Ltd. ; one at Calcutta, the Calcutta Stock Exchange Ltd. ; one at Madras, The Madras Stock Exchange Ltd., one at Lahore, The Punjab Stock Exchange Ltd ; one at Cawnpore, The U P. Stock Exchange Ltd. Recently a Stock Exchange has been opened at Hyderabad (Deccan). Delhi too is planning to have a Stock Exchange.

of Rs. 1000 each. No member is allowed to hold more than one share. While the capital of the Madras Stock Exchange consists of Rs. 44,000, divided into 12 Founder Member Shares of Rs. 500 each and 38 Ordinary Member Shares of Rs. 1,000 each with power to increase or reduce the capital. The U. P. Stock Exchange was started with a capital of Rs. 50,000 divided into 100 shares of Rs. 500 each. The share value was payable in instalment and Rs. 250 was payable on allotment. The Hyderabad Stock Exchange has no capital limited by shares but each member of the Exchange has undertaken to contribute to the assets of the Exchange in the event of its winding up while he is a member or within one year afterwards for payment of the debts and liabilities and of the costs, charges and expenses of winding up the Exchange and for adjustment of the rights of the contributors amongst themselves, such amount as may be required not exceeding one hundred rupees. The property, capital and income of the Exchange can in no way be utilized in payment of bonus or otherwise to the members but are to be applied solely towards the promotion of the objects of the Exchange. The Exchange is controlled by, and the rulemaking power of the directors is restricted by, the provisions of the Hyderabad Securities Contracts Control Act.

(A) Membership :—

In the enrolment of members, the existing practices of leading Stock Exchanges vary much in the emphasis they lay on the candidate's position in business, the financial guarantees and technical qualifications. The London Stock Exchange, the oldest of all, relies chiefly on personal introduction or membership of a reputable Stock Exchange firm. The New York Stock Exchange is satisfied chiefly with the financial guarantee and status implied in the purchase of a seat. The Parquet in Paris requires over and above the purchase of a seat a fairly large contribution to the general guarantee fund and readiness to respond to further assessment on the same account, as also proved knowledge of business, law and banking. Our Exchanges have adopted their practices on the basis of foreign exchanges ; for instance, at the Bombay Stock Exchange an admission is preceded by an enquiry into the character of the applicant by the Managing Committee and has to be supported by two existing members.

The membership of the Native Share and Stock Brokers' Association can be acquired either by nomination or by purchasing a card in the hands of the Governing Board. The membership is open only to the natives of India or to the British subjects who have resided in the Bombay Presidency for at least five years prior to the application for membership. The application for membership is to be submitted in the prescribed form[1] and the candidate must be recommended by two members, not being members of the Governing Board and having at least five years' standing as members. He is required to deposit a sum of Rs. 20,000 in cash or in approved securities, which is returned in case the member does not engage himself, in forward business. If the deposit is made in approved securities, its value is to be maintained at Rs. 20,000 by furnishing additional securities in case the value at any time falls below this sum. The son of a member seeking admission to the membership is not required to make any deposit so long as he continues to be a partner with his father. The candidate for membership is also required to sign a letter of declaration[2] and should either purchase a card in the hands of the Governing Board or obtain a nominee of a member willing to resign in his favour. Besides, he is asked a number of questions which he must reply

1. Appendix XII.

2. Appendix XIII.

to the satisfaction of the Board. The questions mainly relate to his financial stability as also to his experience of the market. Like the New York Stock Exchange, a searching examination is thus made into the financial status and integrity of the applicant. The application is then considered by the Board which is guided in its decision by specific rules.[1] A notice of each application for admission with the name of its recommendors is posted on the notice board 15 days before the election and objections are invited. The objections are to be communicated to the Board within 15 days of the posting of the notice. The election of a member in the Board is carried out by ballot and if passed by a majority of not less than three fourth of the members present at a meeting of the Board, at which not less than one-half of all the members are present, is supposed to be carried out. The Board has the discretion of rejecting any application without assigning any reason, and if any application is rejected once, it is not considered before the expiry of two years. A member, when elected, is required to pay the prescribed entrance fee and an annual subscription of Rs. 5. But no entrance fee is payable by a member who is nominated for admission. The admission of a member is intimated to the candidate in a prescribed from and a card of membership issued to him.

The Calcutta and Madras Stock Exchanges on the other hand ane registered bodies having a share capital divided into a number of shares, the holding of at least one of which is a condition of membership. Thus a member in their case is defined as any one who purchases the share of an existing member. Similar to the practice of the Bombay Stock Exchange, an applicant for membership of the Calcutta Stock Exchange must be proposed and seconded by the members of the Association and a candidate when elected is required to purchase one share in the Association and pay an entrance fee of Rs. 5,000. But if after the death of a member of a joint hindu family, another member of the same family applies for membership, an entrance fee of Rs. 500 only is charged.

The members of the Madras Stock Exchange are divided into two classes —*founder members and ordinary members.* No person is elected to the founder-membership unless all the founder-members have given their unanimous consent and, when elected, is required to acquire a *founder share.* An application for ordinary membership, however, must be passed by a majority of at least two-thirds of the members of the Council of Management. If a member so selected fails to acquire a share, the Council acquires it compulsorily on his behalf either from one who is willing to surrender or from one who has more than one share and the selected person is required to pay a reasonable price fixed by the Council. The nomination at the Madras Stock Exchange can be made only in favour of the son, adopted son, grandson, brother or nephew of the retiring member and, if a member dies without making a nomination, his legal heir or representative is entitled to make such a nomination as again, can be made only either in his own favour or in favour of his son or the adopted son, grandson, brother or nephew of the deceased member. Thus the membership at the Madras Stock Exchange, in most cases, would be hereditary.

The U. P., the Punjab and the Ahmedabad Stock Exchanges are also corporate bodies with limited liability and their membership can be acquired by purchasing a share, while the Hyderabad and the Indian Stock Exchanges are limited by guarantee and their members undertake to pay a certain sum of money in the event of the winding up of the Association. At the U. P. Stock

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1 Vide Appendix XIV

Exchange, a member in addition to the purchasing of a share, is also required to deposit a cash security of Rs. 5,000. But the security money is payable in instalments and the first instalment of Rs. 1,000 must be paid on his election and before registration. Before a candidate can acquire a full right of membership, he is required to pay Rs. 1,370, of which Rs. 250 is the value of a share of Rs. 5000 (50 per cent paid up), Rs. 1,000 as the first instalment of security money and Rs. 120, subscription for a year. Thus the membership is not at all costly as compared with the membership of the Bombay or the Calcutta Stock Exchanges. This is due to the fact that the Exchange has been recently started and a number of shares are not issued as yet.

Rights and Privileges of Membership :—

At the Bombay Stock Exchange a card[1] for membership forms an asset but cannot be pledged for indebtedness. The member by virtue of his card has a right of nomination, but this right is personal and non-transferable. But a member has no proprietory rights in the assets of the Association and cannot withdraw a proportional part thereof when he ceases to be a member. This is quite equitable as the Association does not aim at profit and simply provides a market for dealing in securities. A member is also entitled to vote at the meeting of the Association as also at the time of election. He is allowed, unlike the practice of New York Stock Exchange, to appear in any dispute before the Board or Arbitration Committee with their permission through a legar adviser. Besides, on the death of a member his legal representatives are entitled to nominate any person provided all the outstanding claims of the Association or the Clearing House, or to members arising out of Stock Exchange transactions, have been paid. In case one nomination is rejected another may be made. The card of a member is a mere creation of the Board and is to be held and enjoyed with all the limitations and restrictions put upon it by the constitution of the Association.

A creditor, whether a member or a non-member has no absolute right to compel the Board to dispose of the card of the defaulting member to pay him out of the proceeds of the card. Similarly the holder of a share of the Calcutta Stock Exchange Association is treated as an absolute owner of it and is not bound to recognise any claim or interest in such share by any party.

In certain cases when the card of a defaulting member is forfeited the Board is entitled to sell the card to any outsider. On the adjudication in insolvency of a member or in case of his expulsion or default his card lapses and all the rights and privileges connected with it vest in the Association. The Governing Board has a complete right to deal with, or dispose of, the card as it thinks fit. In case of sale of the card the proceeds thereof are, in the first place, applied towards the payment of the liabilities of the member to other members of the Association, in respect of transactions made subject to the rules of the Association and the balance has to be paid into the funds of the Association or otherwise disposed of according to a resolution in that regard passed at a general meeting of the members. The forfeited card thus sold by the Association can be purchased by an intending member and the price to be paid would depend on the market conditions. So also the price to be paid to secure a nomination depends upon the state of the market and other prevailing circumstances and fluctuates from time to time. In a boom period, with the general rise in prices, the price of the card also rises, as happened in the boom of 1920 when it rose to Rs. 48,000 ; while in a stagnant period it tends to fall as for instance in the depression of 1931 it stood as low as Rs. 6, 700 only. Generally the price of a card fluctuates with the prices

1. Vide Appendix XV

of securities. A rise in security value tends to raise its price and ***vice versa.*** But with the rise in the prices of securities there is not an instantaneous rise in the value of the card, and a certain lag between the two movements is generally noticeable.

Restriction on Membership :—

Membership of the various Stock Exchanges in the country is open to adults only but the minimum age prescribed for a member by the Bombay Stock Exchange is 21, while persons above the age of 18 can become members of the Madras Stock Exchange. Bankrupts and luantics are not eligible to the membership of the Association, as also a member who has compounded with his creditors unless he has paid 16 annas in the rupee. Members of the Stock Exchanges, as they enjoy the rights and privileges, are under certain restrictions. A member of the Stock Exchange of Bombay or Calcutta or Madras, is not allowed to advertise for business purposes, nor is he allowed to issue business circulars. At the Bombay Stock Exchange, a person is not eligible for membership if he is engaged as principal or employee in any business other than that of a broker in stocks, shares and like securities or of a general financial broker, or a bullion and exchange broker. But this restriction is not applicable to members enrolled prior to 1st March 1926. Besides the exception is personal only and cannot be exercised by representatives or nominees, as appeared recently when the son of a pre-1926 member after being admitted as a member on the death of his father requested the Governing Board to allow him to continue his father's old business and the permission was refused. The restriction is quite justifiable on equitable grounds, in so far as a member nominated in awareness of the existing rules cannot lay claim to preferential treatment. Besides it provides the necessary reputation to the Stock Exchange business which should not be considered secondary to other businesses. It also enables a member to put in all his resources into share business which requires a great financial stability and is not likely to be endangered.

Another wholesome provision made by the Bombay Stock Exchange is that a member of the Association is not allowed to be a member or subscriber or shareholder or even debenture holder in any other Association where dealings in shares and securities are carried on. It is on this restriction that the Indian Stock Exchange Ltd. was formed, as the pioneers of this institution feared that the Stock Exchange business might not be taken exclusively but might be taken along with other businesses. "The membership of the Indian Stock Exchange Ltd. is not limited by unnecessary restrictions. It is not restricted to those who stick to Stock Exchange business only. All those who have enough resources and capacity to shoulder the responsibilities can become the members of this exchange."[1] Similarly at the Madras Stock Exchange members are not prohibited from carrying on any other kind of business nor are they prohibited from being members of any other Stock Exchange. But as the rules of the Bombay Stock Exchange do not permit any member to be a member of any other Stock Exchange, members of the above Exchanges are indirectly prohibited from becoming members at the Native Share and Stock Brokers' Association, Bombay. But at the same time the rules of the Madras Stock Exchange provide that a member of the Association is not permitted under any circumstances, to enter into transactions relating to stocks, shares and like securities with any stock or share broker, who is a member of any other association in Madras dealing in stocks, shares and like securities. This is a crucial point in the bye-laws of the Madras Stock Exchange as it indirectly

1. Speech of Sir C. B. Mehta at the inaugural ceremony of the Indian Stock Exchange in February, 1938.

forbids a member from becoming a member at any other Stock Exchange in Madras. Though members are not prohibited to join any other Stock Exchange at Madras, yet after joining any other Stock Exchange, a member would be entering into transactions with other members of that Stock Exchange, which is forbidden by the above rule. Thus, though a member is prohibited indirectly from becoming a member of any other Stock Exchange at Madras, unlike the practice of the Bombay Stock Exchange, he is not prohibited from becoming a member of any Stock Exchange outside Madras. At the Calcutta Stock Exchange the same purpose is served by prohibiting members from making use of any other Stock Exchange.

Partnership :—

Two or more members of the Bombay Stock Exchange can enter into partnership, if permission to deal as a partnership firm is obtained in writing from the Governing Board. Partnership can also be entered into between a member and his son or sons or between two or more members and their sons. The sons of such members as are proposed to be taken into partnership must be otherwise eligible for membership in all respects. Not only that a member cannot enter into partnership with a non-member but even the borrowing of money or securities from non-members on condition that the lender is to be paid interest varying with the profits, is also prohibited. Persons dealing in partnership are required to state on all correspondence relating to the transaction of business the name of the firm, as also, the name of the partners. Fictitious partnerships under fictitious names are forbidden. Members of the Calcutta Stock Exchange, though they are not required to register their partnership firm, are required to obtain permission for the partner to enter and use the rooms of the Association. Such permission for admission of a partner is not granted unless a member has completed two years of membership and an entrance fee of Rs. 500 is charged from every partner. All applications for partnership must be accompanied by partnership deed, otherwise an undertaking in the prescribed form[1] is to be given by the old and the new members. It is a very satisfactory feature in these regulations that partnerships with non-members is prohibited as obviously, a non-member partner being an outsider will try to evade the control and disciplinary action of the Association.

Remisiers, Authorized Clerks and Member Assistants :—

Remisiers :—Remisiers at the Bombay Stock Exchange are 'half-commission" men. They act as agent's for the member brokers to secure business for them and are remunerated out of the commission received from the business secured by them. They are practically under the same restrictions as the members and are not allowed to get more than 40 per cent of the commission received on their businesses. They are also prohibited from carrying on any other business and are required to deposit Rs. 5,000 in cash or in securities. In practice, an initial deposit of Rs. 3,000 may be made at the time they are allowed to act for a member broker, and the balance of Rs. 2,000 may be paid in two equal instalments in two years. The deposit is liable to forfeiture in case a remisier is removed for an offence, which, if committed by a member, would lead to his expulsion, and the member for whom he is working has a first charge on this deposit for the due fulfilment of his engagements and obligations. In addition, a remisier is required to pay

1. 'We Mr.. .... and Mr.. .. .. the old and new partners of the firm carried on under the name and style of........ .. ..do hereby declare that we have jointly entered into partnership to carry on our business more efficiently, to enable the old partners to retire from active business only but it is not the intention of the old partner to sell all his rights and liabilities to the new partner and cease to have any interest in the business to enable the new partner to change the name of the firm into his own"

a prescribed annual fee of Rs. 100 and like a member broker is not allowed to advertise or issue a price-list and is not permitted to make bargains in his own name or on behalf of his employer unless he is also employed as authorized clerk by the same members.

Authorized Clerks and Member Assistants :—Members of the various Stock Exchange Associations are permitted to employ certain authorized clerks or member assistants. At the Bombay Stock Exchange authorized clerks upto a maximum of five can be employed by any member, while the rules of the Calcutta Stock Exchange provide that a member cannot have more than eight authorized assistants. Authorized clerks at the Madras Stock Exchange are termed as Member Assistants and can be employed to the extent of three by any member. Members employing authorized clerks, at the Bombay Stock Exchange are required to pay an annual subscription of Rs. 100 for each such clerk. But at the Calcutta Stock Exchange the member concerned is required to pay to the Association an admission fee of Rs. 500, for the admission of each of the first three assistants, at the rate of Rs. 1,0C0 for the admission of the next two, while at the rate of Rs. 2,000 for each further assistant. This payment of the admission fee on a graded scale seems to be reasonable as a member employing more than three assistants is expected to do a larger amount of business and is in a better position to pay more adequately to the Association for its services.

Authorised clerks or member assistants can only transact business on behalf of their employers and are not allowed to make any bargains in their own names, nor are they permitted to sign on behalf of their employers unless a power of attorney has been granted to them. They act as mere agents of the members and transact business on the floor of the exchange on the basis of the instructions given to them by their employers. Therefore on all bargains made by such authorized clerks, their employers are liable and the responsibility of a member for the acts of his authorized assistants extends to all acts done till the notice of the termination of his employment, or the withdrawal of his authority, has been received by the Association. But at the Bombay Stock Exchange, the responsibility extends to one day after the notice of the termination of his employment. While entering the hall of the exchange, such authorized clerks are required to bear their badges, but it is not the practice to observe this rule though it is expected that the badge be shown to the waiter at the gate, if a demand is made.

The authorized clerks or the member assistants are not paid any prescribed salary and generally their salary being low they are tempted to supplement their earnings by entering into speculative dealings on their own behalf. They are also not provided by any such facilities as are enjoyed by the authorized clerks at the London Stock Exchange. At the London Stock Exchange a portion of the membership is reserved for them and certain concessions in entrance fees, qualification shares and annual subscriptions are also granted. Besides, there is no necessity for a nomination in their case and only two sureties are required as against three sureties required for other persons owing to which probably they are known as ***two-deckers***, instead of ***three deckers*** like others. It is suggested that some such facilities should be provided by our Exchanges as well. A certain portion of the membership should be reserved for them so as to enable these clerks, who have received some sort of training and experience, to join the membership of the Exchanges. At the same time it is necessary that a rigid disciplinary control must be maintained over them and to avoid speculative dealings by them, their salaries might be raised to a more satisfactory level. However feasible the suggestion to raise their salaries may be, it should be admitted that its practical utility will be doubtful as it cannot be a sufficient safeguard against the persistent temptation of human nature to seek to become rich in a short time,

Suspension and Expulsion of Members :—

Members are bound by the rules and regulations of their respective Exchanges. For breach of rules they have to pay penalties in the shape of fines, suspension or expulsion. Expulsion is of course a rare occurrence and happens only in case of fraud or criminal offence, or if a member is adjudicated an insolvent, or becomes a lunatic. The powers of suspension and expulsion, being harsh, are used only in extreme cases and then too with great care, caution and restraint. A member, for example, if found doing business within or outside the market, before or after the usual business hours, is liable to suspension or a fine ; while if he is guilty of fraudulent conduct and is found to transact business in a fictitious name, he may be expelled or suspended. Any offence involving breach of the rules and regulations of the exchange *e. g.* failure to submit accounts and statements required by the Governing Board or the Council of Management, lodging of frivolous, vaxatious or malacious complaints, spreading of rumours of sansational character, or entering into reckless or unbusiness-like dealings, failure to maintain the security at the required value or failure to pay the subscription or dues of the association or failure to abide by the decisions of Committee etc., renders the member liable to suspension, expulsion or a fine. The Governing Board or the Council of Management has been given a certain degree of discretion in the matter of imposing fines. At the same time a member is given an opportunity to explain the charges against him and, at the Madras Stock Exchange, is even allowed to file an appeal to the general body of the members.

(B) Administration :—

The administration of the general affairs of the Stock Markets is vested in a Committee of Management which is termed differently at various Exchanges. For example, at the Bombay Stock Exchange it is termed as a Governing Board while at the Madras Stock Exchange, a Council of Management. The strength of the Committee of Management depends on the circumstances of each Exchange, their total strength being fixed by its bye-laws. The election of the Committee of Management is generally made once a year out of the members of the general body. The general body at the Bombay Stock Exchange is vested with wide powers and may add, vary or rescind any rules of the Association subject to the sanction of the Government of Bombay as provided in the Bombay Securities Contracts Control Act, 1925. But such a resolution must be passed in an extra-ordinary meeting by a majority of three-fourths of the members present at a meeting of not less than 76 members. The general body is also vested with the necessary powers to increase or reduce the annual subscription and the entrance fee, to prescribe charges for bargains to be settled through the Clearing House, to expel any member guilty of misconduct and to vary the number of the members of sub-committees.

A body of Trustees[1] is appointed by the General Body of the Association to take charge of its funds and properties. The trustees to be appointed must be the members of the native community of the Bombay Presidency. A trustee continues to hold office till he dies or becomes insolvent or leaves Bombay for ever, or is removed or withdraws from the trust reposed in him. The trustees are required to invest all moneys belonging to the Association in the securities of the Government of India or any Provincial Governments, Port trust bonds, Municipal bonds, First debentures of any reputable joint stock company or in such other securities authorized by law for investment of trust

1. Messrs. K. R. P. Shroff, Jamnadas Morarji, Dinshaw Bapuji, Dadyburjor and Rajendra Somnarayan form the present Board of Trustees.

funds or in houses and landed property in Bombay, or deposit at a fixed rate of interest or in current account with any reputable bank or joint stock company as may be directed by the Board.

The Executive Authority at the Bombay Stock Exchange is vested in a Governing Board consisting of sixteen members elected by ballot every year in the month of March. Members of three years' standing and belonging to the native community of Bombay Presidency are eligible for election. Any insolvent who has failed at any time to meet his liabilities or a member who has on any occasion compounded with his creditors are ineligible. The Board elects a President, Vice-President and the Honorary Treasurer. All the members must retire on 31st March every year though they may be re-elected. Ordinarily the Board meets once a week, generally Tuesday, though special or emergency meetings of the Board may be called at a short notice. At the time of the election of the members of the Board it is necessary that all the members must vote for all the sixteen members and none is allowed to give a smaller number of votes than the number of vacancies to be filled up.

The Board is vested with general powers of supervision and management and is authorized to close the market for 24 hours in times of emergency without the sanction of the government. It is also authorized to prohibit, in a crisis or emergency, short-selling in any security but such suspention is effective only for 24 hours ; for any longer period, consent of the Government of Bombay is necessary. Similarly buying-in rule can also be suspended by the Board for 24 hours. The Board has supreme authority in all the powers vested in it and the Association is not competent to rescind, alter, or vary any resolution passed by the Board under its powers and authority.

The Calcutta Stock Exchange, similarly is governed by a Committee of sixteen members of whom four are Europeans, four Marwaries, four Bengalese and four of other Indian Communities. The members of the Committee are elected every year at the time of its General Meeting in December. The Committee is bound by the provisions of the Indian Companies Act, 1913 and is vested with wide borrowing powers and may issue debentures.

The managment of the affairs of the Madras Stock Exchange, likewise is vested in the Council of Management, the number of members being determined by the general body. If the number of members of the Council is five, not less than three shall be founder members ; while if their number is six not less than four shall be founder-members, if the number is nine, not less than six shall be founder-members. This shows that the majority of members of the Council are Founder-members and it is they who control the affairs of the Exchange. The members are elected every year in the general meeting. The Council, from among themselves, elects the President, not more than two Vice-Presidents, not more than two secretaries, and not more than two treasurers. The Council is vested with the control and business of the Association and is given very wide general powers. It is authorized to prescribe forms of contract notes and frame by-laws, rules and regulations for the proper carrying of ***budlee***, ***budla***, carry forward and contango transactions.

It is of interest to note at this stage the constitution of the Governing Board of the Hyderabad Stock Exchange recently formed, as it indicates the extent of Government representation on the Board.

The Executive of the Exchange is vested in the Board of Directors consisting of ten members. The Board is constituted as follows :—

(*a*) Three members nominated by H. E. H. the Nizam's Government, for one year at a time.

(*b*) One member elected for a year at a time by the ***Sahukaran Committee***, the instrument of appointment to be signed by the President of the Committee.

(*c*) One member nominated by the Hyderabad State Bank for one year at a time, the instrument of the nomination to be submitted by the Bank.

(*d*) One member elected for a year at a time by the Hyderabad Deccan Chamber of Commerce, the instrument of appointment to be signed by the President of the Chamber.

(*e*) One member nominated by H. E. H. the Nizam's Government for one year at a time to represent the investing public, provided that he shall not be a Government official or a member of the Exchange, or a Managing Agent of any Company whose shares are listed on the Exchange.

(*f*) Three members elected from among the members of the Exchange.

The general control and management of the Exchange is vested in the Board of Directors which looks after the general affairs of the business. But there is also a Working Committee of the Board consisting of four members, one of whom is nominated by the Government from among the nominees of the Board and three others being those members of the Board who have been elected from among the members of the Exchange. This Committee is entrusted with such business as to declare the daily closing rates and in case of default by the members, to sell-out or buy-in securities and to supervise the working of the Clearing House and perform such other duties as may be assigned to it. But it is always subject to the general control of the Board.

Sub-Committees :—

The management of the day to day activities of the Exchanges is carried on through a number of Sub-Committees, which are appointed by the Committee of Management. But unlike London and New York Stock Exchanges in India the work is not sub-divided and entrusted to a number of sub-committees. In London and New York Stock Exchanges there are seperate sub-committees on admission, quotation, law, business conduct, default, commissions, public relations, clerks and others. This may be partly due to the fact that membership at our Exchanges is not so wide as at the London Stock Exchange. In Bombay, for example, there are only two sub-committees—Arbitration and Defaulters Committees. Besides, there is one Listing Committee. Formerly there used to be a Badge Committee but that has been abolished.

The ***Arbitration Committee*** at the Bombay Stock Exchange consists of sixteen members and is appointed by the members in a general meeting and is thus quite independent of the Governing Board. All claims and disputes between members of the Association arising out of any transaction made subject to the rules of the Association, as not otherwise amicably adjusted may be referred to arbitration. The Committee, on hearing of the disputes appoints two arbitrators who are authorized to decide the disputes ***ex-parte***, if the party against whom the complaint is made is not present, provided at least two days' notice has been given to both the parties. However the reference may be summarily dismissed, if the party making the complaint is not present. If the two arbitrators do not agree on any point, a third member of the Arbitration Committee is appointed and then the three members together arbitrate on the dispute and the award of any two of them shall be the award of the arbitration. The party dissatisfied with the judgment of the arbitrators may within seven days of the award appeal to the Arbitration Committee. The appeal shall be considered only when a fee of Rs. 2 and the full amount ordered to be paid in the award has been deposited in cash. The

judgement of the Arbitration Committee shall be binding if the sum in dispute is less than Rs. 1,000. But if the sum involved in the dispute is Rs. 1,000 or more, the party dissatisfied with the award of the Arbitration Committee may appeal to the Board within seven days of the award and shall pay a fee of Rs. 5 and deposit the full amount of the award. The award of the Board shall be final and binding on all parties. The award of the arbitrators comes under the Indian Arbitration Act, 1899, and is therefore binding on all parties. A member who does not abide by the judgement may be expelled by the Board.

Non-members may have recourse to a Court of law in case of dispute, but if they like they can submit their dispute to arbitration by signing the reference paper.[1] Thus the Association offers to non-members also *i. e.*, investors and the public at large, the advantages of speedy justice. A nominal fee of annas 8 is charged to the members, while a non-member is required to pay no fee at all.

Formerly parties were not allowed to be represented by a professional legal adviser in any investigation before the Committee. But owing to agitation and particularly with a view to provide facilities to a non-member who is not well versed with the intricacies of the Stock Exchange techinque, the rule has been amended and now members are allowed to appear through legal advisers but not without the previous permission of the Board or the Arbitration Committee.

The *Defaulters' Committee* consists of six members and decides, as its name indicates, cause of defaults. Stringent rules and machinery exist in regard to the conduct of members and for dealing with cases of default, fraud and manipulations. A member who is unable to fulfil his engagements and obligations arising out of Stock Exchange transactions to a member or non-member is publicly declared a defaulter, and a notice to this effect posted on the notice board on the news of ones impending default being communicated to the Secretary by a creditor member or by the defaulter himself. Whenever a member is declared a defaulter he is said to be "hammered"[2] and the announcement is communicated to the press.

A member who is adjudicated insolvent is termed as 'declared defaulter' though he may not at that time be a defaulter at the exchange. A declared defaulter at once ceases to be a member of the Stock Exchange.

Default Procedure :—

(1) *Statements Received* : Immediately after a member is declared a defaulter the Board fixes the prices current in the market in two sets, one at which members have to adjust their outstanding business with the defaulter in the last settlement and other, called Hammer Prices, at which members having contracts open with the Defaulter in the ensuing settlement must close their transaction by buying or selling to him and the differences arising therefrom are to be paid to, or claimed from, the Defaulters' Committee. By this step the accounts of the members as between themselves are adjusted and the Defaulter is dropped out of the series in which he forms a party. The Defaulters' Committee also takes charge of all his books of accounts, documents,

1 Vide Appendix XVI.

2. The word 'hammering' is derived from the practice of London Stock Exchange. At the London Stock Exchange 'the process of "hammering" automatically follows the inability of a member or his firm to meet his liabilities or his obligations' 'The actual declaration is made by two waiters, one at each end of the "House" who, following one another strike three heavy blows with a mallet or hammer on their rostrums and announce to the hushed audience in tones that can be heard by all "gentlemen, so and so, and here follow the full names of one and all the partners in the case of firm trading as .. ..and company, beg to inform the House they cannot comply with their bargains." (Armstrong—A Book of the Stock Exchange, page 47, 48)

papers and vouchers to ascertain the state of his affairs and the defaulter is required to submit a list of his debtors and creditors, showing the amounts due from and to each, within 15 days of the declaration of the Default. All the members of the Association are also required to submit a statement showing amounts due or to be received within a fortnight of the declaration of the default. If a member has no claim against a defaulter, he has to write that he has none. The Defaulters' Committee shall not entertain any claim against a defaulter which is made after one month of the declaration of the default.

(ii) *Collection* :—The Committee acts as a "Receiver" in insolvency and collects all monies and other assets due to, or payable to, the defaulter and distributes the same *pro rata*, in the form of dividends, to the Stock Exchange creditors whose claims have been admitted by the Committee.

The Committee makes a strict inquiry into the dealings and accounts of the defaulter and reports to the Board if there is anything improper or unbusiness-like. All money due to the Defaulter is received by the Defaulters' Committee through the Clearing House. After the property of the defaulter has been realised, the Committee proceeds to distribute the assets *pro rata* upto sixteen annas in the rupee to the member creditors. A claim of the Association or the Clearing House against the estate of the defaulter ranks as a prior claim. Members are not allowed to sell, assign, or pledge, the claim against the estate of the defaulter without the consent of the Committee.

(iii) *Dividends* :—Whenever the Committee declares a dividend, a notice, at least seven days before the declaration of the dividend, is posted on the notice board of the Association and then after its expiry a separate notice is given to each creditor whose claims have been admitted. Afterwards the Committee proceeds to send the amounts of dividends to the respective creditors. All dividends exceeding rupees twenty are paid by cheques on any local bank. All dividends remaining unclaimed for more than a year are forfeited and put into the funds of the Association. Dividends of deceased members are paid to their legal representatives. But if the creditor member himself is a defaulter the dividend due is paid to the Defaulters' Committee for the benefit of his creditors.

(iv) *Report by the Committee* :—The committee is required to submit a statement to the Board showing the amounts realised by the sale of assets, the liabilities paid off, and the dividends distributed every six months. The Committee is also entitled to take any proceeding in a court of law either in their own name or in the name of the defaulter for recovering any assets of the defaulter which they are entitled to recover under the rules.

Private Compromise :—

Private compromise is forbidden by the rules of the Association. Rules 129 (d) provides that 'any member or firm guilty of accepting anything less than a full and bonafide money payment in settlement of a debt arising out of a transaction in securities shall be suspended for a period of not less than one year.' Inspite of the severe penalty private compromise is not unknown at the Bombay Stock Exchange. It is effected through a compromise Committee or *Patavat* as it is termed. It is an unofficial body and is not recognised by the rules of the Association although it usually functions with the full knowledge and often with the active help of the Board. No doubt it entails a breach of the rules and the Association should take due note of it, but it has been found to be in the general interest of the members. Private compromise is effected when it seems that the declaration of one's default would lead to several defaults and thereby the prestige of many would be endangered. Sometimes a member might fail to meet his obligations, not because his financial condition is unsound, but because of the fact that the failure of one

may entail a severe loss to others and would lead to failures in general. Besides it has been seen that in times of general crisis, banks and other financial institutions withdraw their helping hands and are not willing to lend money and this may in turn add to the number of failures. It is to avoid this calamity that private compromise is made. In such compromises the heavily involved member creditor forms a sort of informal committee-*Patavat* Committee. The debtor member submits all his books and accounts to such a Committee. The Committee decides the terms of compromise after carefully going into the matter.

Re-admission of a Defaulter :—

Upon an application for re-admission, the Defaulters' Committee investigates the conduct and accounts of the defaulter and reports to the Board. The Board may, subject to such conditions as they think fit, re-admit such defaulter only as in their opinion (a) has defaulted owing to a default of the principal, (b) has kept his operation within a reasonable proportion of his means or resources and (c) has been irreproachable in his general conduct.

But he shall not be eligible for re- admission unless he has made a ***bona fide*** money payment of not less than six annas in the rupee of the amount of loss he has incurred. For example, suppose a broker, Y, has total liabilities of Rs. 10,00,000. The Defaulters' Committee on his behalf, say, collects Rs. 2,50,000 and distributes a dividend of four annas in the rupee. Now the net liability not distributed amounts to Rs. 7,50,000, (10,00,000-2,50,000= 7,50,000). So that if he desires re-admission he must have paid six annas in the rupee of this liability *i. e.*, Rs 2,81,250. On getting this sum a further dividend of 4 annas 6 pies will be paid and thus the creditors will get 8 annas 6 pies in the rupee.

But if his default has been contributed by his reckless dealings, he will not be re-admitted. At the same time a member who, as an insolvent, has been declared a defaulter is not eligible for re-admission unless he has paid sixteen annas in the rupee.

Whenever an application is received for re-admission by a defaulter, a notice to this effect is posted on the notice board at least fifteen days before his re-admission and objections are invited by the members of the Committee, which must be received within fifteen days of the date of the posting of the notice.

The card of a defaulter lapses to the Association and is forfeited if he is not re-admitted within six months from the date of the default. If the Card is sold the sale proceeds are utilized in paying the claims of his creditor members and the surplus if any is paid to the funds of the Association. Besides he suffers from a serious drawback as no member is allowed to carry on business for or with a defaulter before his re-admission.

There exists one ***Listing Committee*** at the Bombay Stock Exchange. It consists of four members. The Committee simply has recommendatory powers, the final authority being the Governing Body. Whenever permission is desired for dealings in any particular security at the Stock Exchange, an application is to be submitted either by the company or by the member. Certain other information is also required to be sent with the application. The application is scrutinized by the Listing Committee and the reports submitted with its recommendations to the Board, which decides the question finally.

Formerly there was also a ***Badge Committee*** at the Bombay Stock Exchange. It consisted of five members, three of whom were annually appointed by the Board from its own body and two from the members of the Association.

This Committee scrutinized all the applications of the members seeking permission to employ an authorized clerk. If the clerk satisfied the necessary conditions, a badge was issued to him. This Committee has been abolished.

The administration of the Calcutta Stock Exchange is carried on by a comparatively larger number of sub-committees which are formed every year out of the members of the Committee of Management. A *Complaints' Committee* consisting of 12 members is formed to hear complaints and decide disputes. The committee is divided into four groups, each group having three members, which meet on every Monday, Tuesday, Wednesday and Friday. Besides, there exist *Share Examination Committee* comprising of six members, *Finance Committee*—five members, *Auction Committee*—three members, *Quotation Committee*—six members, *Library Committee*—five members and *Year Book Committee*—five members. These sub-committees carry on their work independently. Unlike Bombay Stock Exchange, defaults are rare at the Calcutta Stock Exchange and there is no Defaulters' Committee. A member who is declared a defaulter and fails to fulfil his engagements within six months of the date of declaration ceases to be a member after the expiry of six months and his share is forfeited. The share so forfeited becomes the property of the Association and the Committee has the power to dispose of this share in any way it thinks fit.

The **Madras Stock Exchange** has a peculiar feature of its own. In the absence of an arbitration committee, though its members are not allowed to institute any suit or legal proceedings in a court of law, in respect of any matter, dispute or claim which they are required to submit to arbitration, whenever a dispute arises, an application is made to the Council of Management for the appointment of arbitrators. The Council then appoints two arbitrators, one of whom is a Founder-member and a third member to act as an umpire. If the two arbitrators do not agree, the dispute is forwarded to the umpire with their respective opinions. If the umpire disagrees with the decisions of both the arbitrators, the dispute is referred to the entire Council for arbitration. The decision is carried out by a majority of votes and is final and binding. Like the Bombay Stock Exchange, the Madras Stock Exchange also provides facilities of arbitration to non-members.

The Arbitrators may, if in their opinion the dispute raises difficult or doubtful questions of law, apply to the Council for the appointment of an Assessor and the Council thereupon appoints an advocate of the Madras High Court willing to act as such Assessor and fixes his remuneration at such amount as is deemed fit. Such Assessor should be present throughout the further hearing of the dispute to advise the Arbitrators on all matters of law, evidence or procedure but the Arbitrators are at liberty to accept or reject his advice.

The Council also appoints a '*Documents Committee*'. Whenever any dispute arises between two parties to a contract whether members or not regarding the validity of documents tendered for delivery, or any defect or alleged defect therein, such dispute is submitted to the Documents Sub-Committee.[1]

The existence of this committee is a special feature of the Madras Stock Exchange. The Committee meets on Wednesdays and Thursdays. It scrutinizes the documents tendered to it and decides whether they are defective and issues the necessary certificate. The decisions of the Committee are open to appeal to the Council of Management whose decision is final and binding.

The management of the **Punjab Stock Exchange** is vested in a Committee of seven members. The directors receive a remuneration of 5 per cent of

1. Regulation 40 (b) Madras Stock Exchange Ltd

the net profits of the Exchange each year, which are divided amongst them according to the number of meetings attended by each director. This is a distinct feature which has no parallel in other Stock Exchanges in India.

(C). Regulation ot Brokerage Transactions and Conduct of Members:—

Stock Exchanges aim at safeguarding the interest of stock and bond holders by regulating brokerage business and by maintaining a high standard of commercial honour among brokers. They thus foster the development of honourable practices based on equitable principles of trade and business. It is therefore to be seen as to how far the object aimed at is served by the various regulations of our Exchanges.

In the first instance due precautions are taken in the admission of members. His finantial position is examined, various questions are put to him. His admission must be recommended by two or three old members of the Exchange. And any mis-statement of facts might lead to his suspension or dismissal. Suspended and insolvent members are re-admitted under certain strict conditions. In brief all possible care is exercised with the view that only persons of highest reputation and financial standing may be admitted to membership. Besides, all defaults and bankruptcies are carefully examined by certain sub-committees. This acts as a deterrent to dishonourable practices and leads to a high standard of business conduct. In the first instance business is transacted by word of mouth and the obligations are always fulfilled except in extreme cases. If a member fails to perform his contract he is obliged to furnish prompt notice of the fact to the Exchange and becomes suspended of membership and is not reinstated unless approved settlement has been effected with the creditors.

Rules governing general conduct of business :—

The constitutions of various Exchanges provide rules relating to a large variety of subjects and define and regulate the practices of commission charges, the kinds of bids and offers permitted, maturity of contracts and their comparison, clearing of securities, and settlement and payment of transactions transfer and registration of shares etc. The existence of these rules, if rigidly enforced ensures the regularity of purchases and sales, and benefits a vast number of investors and dealers. Rules prescribing the minimum scale of brokerage aim at avoiding unnecessary competition and the under-cutting of the rates of commission.

To maintain a high standard of 'commercial honour and integrity', certain rules are directed against fraudulent and unbusiness-like practices in the buying and selling of securities. If a member is guilty of fraudulent or dishonourable conduct he is liable to expulsion. Fictitious transactions, matched or watched sales are prohibited ; for instance, a rule of the Bombay Stock Exchange provides that "Fictitious transactions or dealings in the market are forbidden and a member who shall give or execute an order for the purchase and sale of securities which to his knowledge would involve no change of ownership shall be deemed guilty of disgraceful and dishonourable conduct and may be suspended or expelled by a resolution of the Board.[1] Similarly such practices are forbidden by other Exchanges. In practice, however, these rules are not rigidly enforced as sometimes it becomes very difficult for a broker to find out business which is carried on in fictitious names.

In the past many undesirable practices in the Security Markets have been associated with the distribution of false information through the medium of

1 Regulation 152 of the Bombay Stock Exchange.

advertising circulars, market letters and rumours. It is satisfactory to note that such practices are now forbidden. Besides, most Exchanges have adopted certain general disciplinary rules which are far-reaching in their effect, since they may be extended to cover every practice that may be regarded as contrary to just and equitable dealings. At New York the Exchange has a business conduct sub-committee which examines the conduct of members in the light of the rules and imposes necessary penalties. It is regrettable to note that no such committee exists at our Exchanges, though the Executive of the Associations is granted general discretionary power and may examine the conduct of any member and demand any explanation or statement. The high standard of business morality with which business is transacted at the New York Exchange is evident from the following remarks of John G. Milburn given in an evidence before the Senate Commission on Banking and Currency. "The rules making acts contrary to just and equitable principles of trade a ground for expulsion enable the exchange to hold its members to a standard of business integrity far higher than the law does or could require. A member may be expelled for doing that which according to the standard of the most honourable of his own business associates, is deemed contrary to fair dealing, irrespective of the question whether or not it amounts at law to fraud or positive wrong doing. He may be punished for reckless and unbusiness-like conduct and even for errors of judgment. In all his transactions he has to conform to a standard which the law does not undertake to prescribe. Whatever he does, has to be in accordance with just and equitable principles of trade a standard unknown to any system of law. Whether any particular act of his violates those principles is determined not by any outside body of layman, like a jury and the application of technical rules of evidence, but by a select body of members of Exchange chosen to uphold just and fair dealing who ascertain the facts with business-like directness and who are empowered to expel, which is the ruin of a man's career as a broker, or to suspend which is a deep humiliation. These rules are an illustration of the disciplinary efficiency of the Exchange."[1]

(D) Clearing House :—

The first establishment of a Clearing House occurred in Frank-fort in 1867, and Berlin, Hamburg, Vienna and London Stock Exchanges adopted the system in 1869, 1870, 1873 and 1876 respectively, while New York started such a system about 53 years ago in 1892. In India the system of clearing securities through the agency of a Clearing House is of a recent origin and was adopted in 1921 by the Bombay Stock Exchange. Stock Exchange clearance involves both the clearing of securities and their payment and a clearing house in fact acts as the Settling Department of the Stock Exchange and works on the lines of the Bankers' Clearing House. Clearing is made possible through the set-off of purchases and sales wherever possible and through the substitution of parties where set-off is not possible. Delivery and payments are centralized by bringing together the actual buyers and sellers and eliminating a number of intermediaries. It thus simplifies settlement by making use of the simple device of setting off contra transactions, leaving only the net balance to be settled by actual payment in cash or by cheque. Fraud is prevented and much currency is thus economized

The Clearing House of the Bombay Stock Exchange is managed by the Bank of India. Certain approved banks are members of the Clearing House and these banks in the first instance submit statements regarding the business of their constituents and then give or receive delivery. But such deliveries and payments through banks do not form a large part of the total clearing at any

1. Huebner, Stock Market.

time. Delivery and payments are also effected directly by the members themselves, though a smooth working of the Clearing House is made possible through the co-operation of approved banks. Every member has to maintain a current account with the Bank of India to facilitate clearing which is a great advantage to the bank to carry on Clearing House operations. The Clearing House does not guarantee the title, genuineness, or regularity of any security or transfer passing through it. It simply facilitates the clearing and payment of securities. Approved banks and Trust Companies are also allowed to act for members and their constituents for giving and taking of share delivery and accepting or making payment thereof to the Clearing House. Every member is allowed to have two clerks who are authorized to look after the Clearing House routine and sign all papers such as lists, Balance Sheet, vouchers, statements, claim notes, receipts etc. Every member is allotted a Clearing House number which must appear on all forms by the member in connection with the operations of the Clearing House. The Clearing House also collects fees and subscriptions of members and authorized clerks on behalf of the Association. Such amounts are included in the bills of the Clearing House and are collected from the members.

When shares are lost the holder of the securities informs the company concerned and applies for a new certificate. The Company informs the Stock Exchange that a particular certificate is lost and a duplicate is applied for. This is brought to the notice of the members by the Stock Exchange and it is the business of the Clearing House to see that such lost shares are not delivered again and that they are put out of circulation. The Clearing House has also to put in a considerable amount of additional work in abnormal times such as a crisis and excessive short sales, when normal procedure is to be replaced by a complicated system of adjustment.

The Clearing House is remunerated for its services by the Stock Exchange but the members are required to pay to the Association, Clearing House Commission which forms the chief source of revenue to the Stock Exchange. The Board fixes the making-up prices and the commission to be paid is calculated on the basis of such prices fixed by the Board at the rate of Re. 1 for every one lakh of rupees worth of business. Thus the cost of the services of the Clearing House is borne by members proportionately to the amount of business transacted by them and cleared by the Clearing House on their behalf. Thus it is the active members who bear a greater portion of this expense, which seems to be quite reasonable. The work of the Clearing House has been divided into various departments. The Receiving Department receives forms and securities on certain dates and the Entering Department makes a record of the clearance of securities and documents. The Receiving Department also performs the work of a paying department at the time securities are delivered and payment is made. The Ledger Department is concerned with the books of accounts while the Administrative Department unifies all work.

The Board has prescribed all the forms to be used for the purpose of the Clearing House such as clearing sheets, balance sheets, delivery forms, claim notes, vouchers etc. The Board is authorized to prescribe the charges to be made for the forms supplied by the Clearing House. All forward bargains, as also bargains in such other securities as may be notified by the Board, are to be cleared through the Agency of the Clearing House, and, if a member elects to deliver the securities outside the Clearing House, members making and accepting such deliveries will release all intermediate parties from all liabilities. The deliverer alone shall remain responsible to the receiver. This is quite a stringent condition and the result in practically all cases will be that such securites will always be cleared through the Clearing House.

Clearing House at the Calcutta Stock Exchange :—

Recently a scheme of Clearing House has been instituted at the Calcutta Stock Exchange. It is conducted by the Allahabad Bank Ltd. and has come into force from Monday, 4th December, 1944. Transactions in four speculative counters only viz. Burrakur Coal Co. Ltd, Howrah Mills Co. Ltd., Indian Iron and Steel Co. Ltd. and Steel Corporation, are settled and delivery effected through the Clearing House. Clearing of the transactions from Monday to Friday, takes place on Monday in the next week. The selling member delivers to the purchasing member in respect of each transaction in the shares of above companies, during working hours of next business day, a Sold Note in form 'A' and in turn receives from the latter a Bought Note in form 'B'. Each member prepares a statement on form 'C' of his purchases and on form 'D' of his sales for the week, a separate from being used for the shares of each company. To these forms are attached the respective Sold Notes and Bought Notes. All transactions are summarized on form 'B', which, with other Statements and Notes, are handed over to the Clearing House before 11 a. m. on the Clearing Day (Monday of each week for transactions from Monday to Friday of the preceding week, or if Monday is a holiday the next working day). In case there happens to be more than two holidays in a week, the Committee decides whether clearing is to be effected or transactions carried over to the next week.

If sales of a member exceeds his purchases, he is required to deliver to the Clearing House before 1. p. m, on the clearing day the number of shares in excess, attaching a list in duplicate, one copy of which is returned to the messenger duly signed; while if purchases exceed the sales the member receives the balance of shares from the Clearing House between 5 p. m. and 6 p. m. on the clearing day. Shares not taken up by 6 p. m. are presented to the members at their risk, before 11 a. m., the following day, which is known as the Settlement Day. The amount receivable or payable by each member is credited or debited to his account with the Allahabad Bank. The Clearing House is authorized to withhold the delivery of shares until payment is made. Shares not taken up by the members are sold on their account by the Committee and proceeds paid to the bank, any shortfall being recovered *pro rata* from members, whose sales to the defaulting member exceed their purchases from him during the week, which they are also liable to contribute similarly in the event of any member failing to pay for shares delivered to him, their respective shares being debited to their accounts. The Clearing House has a first charge on the card value of any defaulting member. Shares, subject to objection, if received from the Clearing House, are returned to the Stock Exchange by 2 p. m. on the Settlement Day. One or more members of the Committee attends at that hour and adjudicates in all cases of disputes. If the shares are held to be in order, the member concerned accepts them, otherwise they are returned by the Clearing House to the members by whom they were lodged with a bill for the cost, calculated at the closing rate for that settlement as fixed by the Committee, the amount being charged to his account with the Allahabad Bank and credited to that of the member returning the shares. Where shares taken up from the Clearing House are presented to the company for registration and found to be irregular, the purchasing member may apply to the Clearing House. The member who lodged such shares is required to replace them for other shares or refund their value at the market rate.

The scheme seems to be simple and workable and inspite of the fact that it would impose an additional amount of work on members, who are bound to grudge it in the beginning and may not in fact, be able to complete the various forms, it must be welcomed as it forms a very wholesome piece

of reform at the Calcutta Stock Exchange, where such an organization was lacking for a considerable period of time. The Stock Exchange Committee should take drastic steps to make the scheme a success and should gradually widen the scheme so as to apply to other counters as well, as it would be helpful in preventing the building-up of large speculative positions.

The existence of the Clearing House relieves the members from much of the trouble that is implied in the clearance and payment of securities and thus facilitates the transaction of a large amount of business, as also the sale and purchase of a particular scrip a number of times. It brings into contact the actual purchaser and seller, who have to receive and deliver the securities, by eliminating the intermediaries and settling merely the final balances, and thus saves a lot of time which would not have been possible had the transactions been directly settled and paid for. 'It makes the security settlement easier and cheaper by eliminating much clerical and messenger service that would otherwise be necessary. Also it greatly reduces the demand for bank credit and thus has a tendency to lower interest charges and lighten the strain on the banking system.'[1]

1. Twentieth Century Fund Inc.—Security·Market—page 253.

CHAPTER IV.

Official Quotations and Listing Regulations.

Listing constitutes one of the foundations of an organized security market and an integral part of the machinery of Stock Exchange. Dealings in securities, by their very nature, are susceptible to fraud and undesirable practices and thus necessitate listing of securities. Listing implies that, securities when they have been admitted to dealings on a Stock Market would meet to the satisfaction of Stock Exchange authorities, certain prescribed standard of legality, security and workmanship.[1] When a security is admitted to dealings, the soundness of the Company is in no way guaranteed, nor the security is recommended for favourable consideration. The investor himself has to exercise his discretion in selecting a particular scrip. The Stock Exchange cannot be expected to act as a judge and advise the investors regarding the soundness or otherwise of a particular company. That would be imposing a responsibility on the Stock Exchange Committee which it would be incapable of carrying out. The Corporation Laws of a country and the Listing requirements of an Exchange call for certain information which is to be published and will act as a basis for the discretion of the investors and the work of the Stock Exchange Committee is to see that the provisions of the Company Law have been complied with and the investors are given a reasonable opportunity of judging the merits of the concern.

The Exchanges before giving permission to deal require the observance of a rigid set of rules by the corporation and call for certain information with a view to safeguard the interest of the investors. The information supplied by the corporation is examined impartially and permission is granted. This permission naturally carries a presumption in favour of its soundness and indicates that at the time of listing the company is legally organised and is solvent as a going concern. Thus though Listing does not provide any guarantee regarding the earning power of listed securities but the privilege of Listing creates a favourable impression on the minds of investors who are indirectly assured of the soundness and legality of the corporation.

At the same time Listing provides stocks and bonds the benefit of a broad and continuous market where sales can be affected without any waste of time. It thus adds to the collateral value of the security which can be so easily hypothecated for any loan from a bank or a financial institution. Again in listed securities business is transacted under certain regulated principles and thus both the buyers and the sellers are afforded a certain degree of protection and their interest is safeguarded. They are benefited in matters of brokerage and the enforcement of the usage and customs of the Exchange as the activities of the brokers are regulated and supervised by the Committee of the Stock Exchange. Besides the investors and the dealers can also obtain the benefit of a regular and systematic quotation service and are assured of the price of the stock which can be converted into cash at approximately the prevailing price.

To the Corporation, Listing affords a distinct advantage as Listed scrips occupy a certain degree of prestige in the minds of the public. Besides, their securities are popularised and made public through the agency of the "Quotation Service" of the Exchange and also occupy a place in the daily

1. Huebner—The Stock Market, page 14.

quotation list of newspapers and financial journals and it is because of these facts that it is stated in the prospectus of a new company that an application will be made to have the company's securities listed on a Stock Exchange.[1]

Listing Regulations :—

Listing regulations of a Stock Exchange in a country depends on the existence of other regulations governing the Corporate form of organisations. In European countries Listing requirements as compared to New York Stock Exchange are not so rigid and comprehensive because of the existence of Companies Act or National Incorporated Laws which prescribe certain conditions and demand the publication of certain information. The New York Stock Exchange has adopted very comprehensive listing requirements as a substitute for National Corporation Laws. The listing requirements, there, are the result of a certain evolutionary process. For many years in the beginning all that the Exchange demanded, was to know that a company really existed and that its shares were authentic. But with the gradual development of the corporation form of organisation and their growth in size and importance, the relationship between management and the investors is widened. Formerly a large number of shares were usually held by the management as the size of the corporation was very small. Membership was thus confined to a few wealthy persons residing in the vicinity of the corporation. As such there was no necessity of strict listing requirements as the condition of the corporation could be ascertained by personal enquiry and observation. But with the increasing activity of the Exchange and with the growing number of members the line between the management and stockholders became sharper, it became very necessary to adopt strict regulations with a view to protect the interst of the investors particularly in the absence of Corporation Laws, and since then they have been steadily tightened. Every security listed on a national Exchange must be registered with the Securities and Exchange Commission and the corporation must comply with the following conditions :--

(a) A company must state on registration the state of its organisation and disclose its financial structure and nature of business.

(b) The terms of issue and the position and privileges of each class of security must also be indicated clearly.

(c) The company should submit a Balance Sheet and Profit and Loss account for the preceding three years.

(d) The names, addresses and positions of directors, underwriters and officers and of any other person holding more than ten per cent of any equity shares must be sent to the Association together with the remuneration paid to different persons.

Besides the directors and officers of a company are not allowed to sell short the securities of their own company even when they hold shares permanently. The Listing requirements of New York Stock Exchange also require a corporation to send a copy of Balance Sheet and Profit and Loss Account of

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1. The Atlay Committee on the Native Share and Stock Brokers' Association has aptly described the importance of Listing "The admission of the shares of companies to the privilege of quotation and dealing on the Exchange is generally regarded as a matter of some importance not only by the companies whose shares are thus given additional facilities of dealings and publicity but by those in control of the Exchange who realise that though a quotation indicates nothing more than that a company has been properly constituted and that its affairs are in apparent order, the admission of a company to the facilities thus offered entails a certain responsibility. A responsibility which it is endeavoured to discharge by a scrutiny of the affairs of the company before admission and by the enforcement of certain conditions". (Atlay Committee Report—page 17-18.)

three preceding years and also insist on their publications every year. Such a statement of Balance Sheet and earnings are not needed in India and England, since they are already required by Indian and British Companies Acts.

The company has to delegate any of its officers to appear before the Listing Committee of the New York Stock Exchange and answer such querries as may be put to him. The company has also to submit a list showing the number of shareholders each holding 1000 shares or more, 100 shares or more, or less than 100 shares. Secondly it has to answer the question as to how many holders of these various amounts hold their stock absolutely free and clear of any engagement. Further it has to answer whether there is any syndicate interested in any of the stock and if so how much stock is tied by a syndicate agreement.

London Stock Exchange :—

Listing at the London Stock Exchange is divided into two parts. There is first the ***admission to dealings*** which amounts to a permission to deal in new issues, which can be easily obtained by two brokers of the Exchange. The permission to deal does not qualify any security to be quoted in either the Official list or Supplementary list. The Stock Exchange publishes two lists. The official list gives the prices of securities admitted to it. The supplementary list gives prices of some other securities not qualified for the official list.[1] The official list gives brief particulars of the nominal and issued capital, rates of interest and dividends, dates of redemption etc., and contains a record of all the business which is recorded on the marking boards. These lists form an important feature of the London Stock Exchange and are published by the Trustees and Managers of the Exchange under the superintendence of the Secretary of the Share and Loan Department.

The second part is ***the admission to dealings and quotations*** and before any scrip is admitted to quotation list, a number of formalities are to be complied with.

The conditions to be complied with when making an application to the London Stock Exchange for shares and/or debentures to be officially quoted thereon are contained in Rule 162 and Appendix 35 of the Rules and Regulations of the Stock Exchange. Application for admission to dealings and quotations should be made to the Secretary of the Share and Loan Department but prior to the submission of the application, following requirements must be complied with. Permission to deal in the security must have been obtained and the prospectus of the corporation, agreeing substantially with the Articles of Association, must have been publicly advertised and should provide for the payment of at least 10 per cent of the amount subscribed. The Articles of Association of the company should provide for a share qualification of the directors whose borrowing powers should be limited. It should secure the non-forfeiture of dividends and should prescribe a common form of transfer deed. Fully paid shares of the company should be free from all lien. Before a company is granted the necessary permission for dealngs and quotations, its first annnal reports and accounts must have been issued and three copies of such Balance Sheet and Statement of Accounts should have been forwarded to the Secretary of the Share and Loan Department. Besides, certain other documents such as, Certificate of Incorporation and Certificate

1 The rule 168 (1) (2) (4) of the London Stock Exchange lays down that "A list of securities admitted to quotations shall be published under the authority of the Committee There sha'l be published also under the authority of the Committee a supplementary list of securities not officially quoted No list or record shall be published and sold by a member without the sanction of the Committee."

entitling the company to commence business, two certified copies of the prospectus, two certified copies of Memorandum and Articles of Association, original letters of application, allotment book, a copy of the letter of allotment, specimen share certificate and a statutory declaration by the chairman and the secretary stating that the prospectus has been drawn in conformity with the the Companies Act and that all the necessary documents have been filed with the Registrar of Companies, as also the number of shares and the cash paid per share, must also be submitted to the Secretary, Share and Loan Department. Securities issued to vendors credited as fully or partly paid shall not in any case be quoted until six months after the date on which permission was given for dealing in the same class of shares subscribed for by the public.

In case of debentures, when permission to quotations is seeked, the trust deed or debentures must provide (*i*) that if the debentures are repayable at a premium, and the company goes into voluntary liquidation, the debentures shall not be repayable at less than the premium then current (*ii*) that the appointment of a new trustee must be approved by an extraordinary resolution of debenture holders and (*iii*) that a meeting of the debenture holders must be called on written requisition of holders of at least one-tenth of the stock outstanding.

A company which has not issued a prospectus for marketing its securities is required to comply, with certain additional formalities. Such a company must publish an advertisement in two leading London morning papers containing much of the data required under the Companies Act. The particulars required to be given in this advertisement vary according to circumstances. If the share or loan capital has already been dealt at the Stock Exchange, every stringent conditions are imposed. In many respects the advertisement follows the legal requirements for a prospectus and sometimes in addition to legal requirements, the advertisement also states the professional qualifications of auditors, names and addresses of the bankers, underwriters and promoters. It is with a view to check the unscruplous promoters and underwriters from finding shelter behind a Limited Company, that is "merely a thing of straw". Such an advertisement must be headed that "this notice is not an invitation to the public to subscribe but is issued in compliance with the regulations of the Committee of the London Stock Exchange for the purpose of giving information to the public with regard to the company. The directors collectively and individually accept full responsibility for the accuracy of the information given"

A copy of the advertisement signed by or on behalf of the directors and a signed copy, properly certified, of the resolution of the Board of the company authorising the advertisement, and a copy of the newspapers in which such advertisement appeared, must be submitted to the Exchange. The authorities of the corporation must also undertake to notify any changes in the directorate by death, resignation or removal and send three copies of the statutory and annual reports and accounts, and three copies of resolutions of certain specified kind and intimate the declaration of any dividends to the Board of Exchange.

The Committee af the Stock Exchange his reserved the right to refuse permission without stating any ground, even in cases where the requirements of the Exchange have been complied with. This is because the Cmmittee want to reserve to themselves this right even in cases where though everything on the surface appears to be safe, they have certain private reasons to suspect that there is something wrong within.

Stocks and bonds of foreign companies may also be admitted to official quotation provided they are listed on the Stock Exchange of their country and official evidence is given of that fact.

Berlin Stock Exchange :—

At the Berlin Stock Exchange securities are admitted to the Official List for trading on an application to the Board of Admission. The application for admission to dealings is made by a firm represented on the Stock Exchange. One half members of Board of Admission consist of persons not professionally dealing in securities on the Stock Exchange. Before permission is granted the corporation must have been entered in the Commercial Register for at least one year and must have a minimum capital of 5,00,000 R. M. A prospectus must have been issued giving all the information necessary for determining the value of the security and the concern must undertake to publish all financial statements and announcement relative to the concern and its management in the Reichsanzeiser and one other Berlin newspaper.

The listing of private foreign corporations is conditioned on agreement by the company that it will publish its profit and loss account in German newspapers annually for a period of five years. No new issue can be dealt with at the Exchange unless the subscription list has been closed and no transactions can be carried on in a security that has been refused listing. There is also a system of official price fixing and quotations. Thise is effected by the Board of Directors with the Co-operation of Sworn brokers.

The Paris Stock Exchange :—

All securities issued by the Republic of France are listed automatically on the Parquet. Other securities must be issued in accordance with the Laws of France to be listed on the Parquet. Most of the other conditions for listing are similar to those found in other countries. A Committee of Stock Brokers must see that the Listing requirements are fulfilled before approving a security for Listing. In case of foreign issues, authorization from the Minister of Finance is necessary.

Indian Stock Exchanges :—

In India the Stock Exchanges have not adopted very rigid regulations, particularly because of the existence of the Indian Companies Act which requires the corporations to disclose and publish certain information for the benefit of the investors. The Indian Companies Act which was amended in 1936 requires every company to keep proper books of account with respect to

(*a*) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place.

(*b*) all sales and purchases sf goods by the Company.

(*c*) all assets and liabilities of the Company and get them audited.

Besides, it has been made compulsory for every company to place their Profit and Loss Account before the share holders along with the Balance Sheet prepared in prescribed from and must contain all the necessary prescribed information. Sufficient publication is to be given to these documents and a copy must be sent to every member before the annual general meeting. Three copies of such a Balance Sheet and Profit and Loss account must be filed with the Registrar of Joint Stock Companies. In New York the Company Law does not require any corporation to publish a full statement of accounts and a Balance Sheet. The Stock Exchange authorities have, therefore, attempted to overcome this defect by making it a condition of Listing to publish a Balance Sheet and a Statement of Account. It is in this fact that the listing requirements in our country differ from those of the New York Stock Exchange.

The Bombay Stock Exchange has adopted its Listing regulations on the basis of the regulations of London Stock Exchange. The Bombay Stock Exchange does not permit any dealings whether for ***ready delivery*** or ***for the account*** in shares or securities of any company unless permission for such dealings has been obtained from the Board. The application for such permission must be made either by a member of the Association or by the Company. The application must contain such information and particulars as may be required by the Board. The application is submitted in prescribed form and is accompanied by Form A, B, C, and D.[1] All these forms contain certain valuable informations required by the Stock Exchange authorities. Form 'A' contains information regarding the Share Capital of the Company. The authorized, issued and paid-up capital are to be disclosed separately and percentage of shares allotted to the public unconditionally, and exclusive of the directors is also to be indicated. Form 'B' contains a declaration that the Articles of the Association of the Company contain all the necessary provisions required by the Stock Exchange Committee. Form 'C' discloses the distribution of shares in various lots, and also the names of the highest holders. It also contains a certificate that all shares are free for sale and are held under no syndicate agreement or control, and form 'D' contains an agreement with the Company and the Association by which the Company undertakes to abide by the Listing regulations of the Exchange.

On receipt of the application together with the required information a notice is posted for the information of the members for a period of one week prior to its consideration. The application is then scrutinized by the Listing Committee and its recommendations are forwarded to the Board. The Board has the absolute discretion to grant or reject the application. The main consideration behind the granting of permission is not only that the company ought to be good and sound but that the shares and securities must be of sufficient magnitude and importance and are such that there is sufficient public interest in them as no application for such admission shall be granted unless such securities are of sufficient magnitude and importance and in which there is sufficient public interest and unless the requirements and conditions here-in-after set out shall be complied with, provided however that the Board may by a resolution passed by a majority of two-thirds of the members present at a meeting dispense with the strict enforcement of the said requirements and conditions.[2]

The Company, seeking permission to dealings, must have been registered under the Indian Companies Act and its prospectus should have been published in some Bombay newspaper. It should undertake to comply with certain prescribed conditions before dealings in its shares can be permitted. The Company should agree not to close the transfer books on such days as may be inconvenient to the Association for the purpose of settlement of transactions and of which three months notice would be given by the Association to the Company.

The Articles of Association of the Company must provide :

(*a*) that none of the funds of the Company shall be employed in the purchase of or in loan upon the security of its own shares.

(*b*) that the borrowing powers of the Board of the Company's directors are limited to a reasonable amount not exceeding the issued capital.

(*c*) that the non-forfeiture of dividends is secured.

(*d*) that a common form of transfer shall be used and there shall not be any restriction on the transfer of fully paid shares.

1. Vide Appendix XVII, a b, c, d.
2. Regulation 226 of the Native Share and Stock Brokers' Association.

(e) that fully paid shares shall be free from all lien and in the case of contributory shares the company may have a lien only for all monies called or payable at a fixed time in respect of such shares.

(f) that the Company in general meeting shall have power by extraordinary resolution to remove any director before the expiry of his period of office.

It is also necessary for the Company that at least 50 per cent of the issued capital must have been offered to the public in equal proportion as to class or kind and allotted fairly and unconditionally. For the purpose of this rule, vendor's shares or securities are not to be considered to form part of such public allotment. Dealings in Bonus shares are also allowed provided such shares are identical in all respects with the existing shares and the provision prescribing the allotment of a proportion of shares to the public does not apply to such shares.

In case 50 per cent of the shares have not been issued to the public the company must satisfy the Board that it invited applications for at least 50 per cent of the shares or securities issued for a period of not less than three days, that the public did not apply for 50 per cent of the number of shares or securities issued and that in consequence less than 50 per cent of such shares or securities were allotted to the public.

In addition a number of documents, such as Articles of Association and in the case of a debenture issue a copy of the Trust Deed, certified copies of agreement relating to issue of shares, of all material contracts, agreements, concession and other similar documents, the number of shares offered to the public, distinctive numbers of shares for which permission to deal is applied for, the number of shares applied for by the public and the number of shares allotted to the public unconditionally pursuant to such applications, the list of allottees and the largest number of shares applied for by and allotted to any one applicant must be filed with the Association. Where the whole of the capital has not been issued at the time when shares are offered for subscription the Company should state whether the unissued shares are vendor's shares or are held in reserve for future issue. The Company shall, on request, submit its allotment sheets to the Association for inspection.

The Company must also undertake under its seal—

(a) to split share certificates, Letters of Allotment and if a "Rights" issue to split Letters of Rights into smaller denominations in the same name and to have any such splits certified by an official of the company ;

(b) to issue the definitive certificate within one month of the date of the lodgment of the transfer and to issue balance certificates, if required within the same period ;

(c) to advise the Association by letter of all dividends recommended or declared immediately a meeting of the Board has been held to fix the same ;

(d) to notify the Association promptly of any material changes in the general character or nature of its business ;

(e) to notify the Association of any changes in the Directorate by death, resignation, removal or otherwise ;

(f) to forward to the Association copies of statutory and annual reports and audited accounts as soon as issued.

(g) to forward to the Association copies of all notices sent to the share holders and to file with the Association certified copies of resolutions of the company as soon as such resolutions become effective ;

(h) to notify the Association promptly in the event of the re-issue of forfeited shares or securities or the issue of shares or securities held in

reserve for future issue or the issue or creation in any form or manner, of new shares or securities or of any other rights, privileges or benefits to subscribe to ; and to give the share holders reasonable time within which to record their interests and to exercise their rights, and to issue in the first instance all such shares or securities or rights, *pro rata* to the existing shareholders in the form to be approved by the Board of the Association and give to the Association at least fifteen days' notice in advance of the closing of the transfer books for the purpose ; and

(*i*) to make an application to the Association for the listing of any new issues of shares or securites.

Foreign securities may also be listed on the application of a member provided they are admitted to dealings on any Stock Exchange outside India and the corporation undertakes to provide a register in British India.

Regulations governing admissions to forward dealings :—

The Board in their discretion has power to admit the shares of any particular company (except the shares of a Bank) to dealings for the Account and Settlement subject to the following conditions :—

(*a*) The Company undertakes to maintain an office in British India for registering the shares in the name of the transfree and to use the common form of transfer.

(*b*) All the shares are fully paid up.

(*c*) The Company is incorporated for not less than three years preceding the application for admission under this rule or is a merger of companies, all of which have been incorporated for not less than three years previous to the date of merger ;

(*d*) The company undertakes to split up its share certificates in the lots required by a share holder who holds a certificate for a large number of shares ;

(*e*) The company undertakes to close its transfer books on such days as may be convenient to the Association for the purpose of settlement and on the days of which the company shall have had three months notice.

(*f*) The company agrees to pay an annual fee of Rs. 1,000 in respect of clearing charges, if required.

A resolution of the Board admitting the shares of a company to the Account and Settlement must be passed by a majority of two-thirds of the members present at a meeting of the said Board specially summoned and at which not less than three fourths of the total number of the members are present.

Thus the rules of the Bombay Stock Exchange permit admission of securities either to *ready* list or *forward* list. The shares of any bank are not given a quotation in the Forward list. It is because of the fact that the fluctuations in the bank shares are bound to have serious repercussions on the confidence of the people as the resources with which they operate are liable to withdrawals on demand. And this may lead to wide repercussions, confusions and general break down of confidence leading to a consequent runs on the banks. "Fluctuations in the values of their shares are highly undesirable and likely to provoke unwarranted inferences and mass fears."

A glançe on the listing regulations of the Bombay Stock Exchange reveals that in all the conditions the interest of the investors has been kept

dominating, the underlying idea being to save the investors from the underhand dealings and practices of the company promoters and directors. It was in the year 1920, that the Association for the first time adopted a set of rules of dealings in new issues. They were criticised by various commercial bodies and the corporations alike. Recently in 1936 they have been revised and since then it is found that they are working quite satisfactorily. These regulations have also been criticised from time to time on the ground that they are very rigorous and harsh. But a comparison of these regulations with those of foreign countries reveal that they are still less rigorous and comprehensive. The Indian companies Act provides a model set of articles in Table "A" for adoption by a corporation. But if a company likes, it can by its separate articles expressly exclude or modify the regulations of Table A. It is thus to safeguard the interest of the investors that the Stock Exchange insists that the Articles of a company must provide for the non-forfeiture of dividends and that the fully paid shares must be free from all liens. Besides the company must have power to remove any director by an extraordinary resolution before the expiry of his period of office so that a director cannot misapply his powers and may not prove detrimental to the interest of the company.

The company is also required to undertake to advise the Association of all dividends recommended or declared immediately a meeting of the Board has been held to fix the same. The underlying idea is that the officials and the directors possess inside information regarding higher dividends and prospects of the company and they may use this power to the detriment of the investors by acting on the Stock Exchange through their friends. The undertaking protects the investors from this practice of the directors.

All material changes in the general character of the business are to be notified and copies of statutory and annual reports and audited accounts are to be forwarded to the Association. The Morison Committee while giving its views on the listing regulations observed that "the law embodied in the Companies Act is the proper authority to require disclosure of all material facts in a public prospectus or a Balance Sheet. From this stand point we consider that, while, in the main, the conditions laid down for granting permission to deal are reasonable in some instances they go too far and tend to interfere in what after all are the duties of the directors of a company or of the share holders."[1]

The view of the Committee, though may be correct, but does not seem to be reasonable as when the directors try to manipulate things in their own way, who is the guardian of the investors ? The Stock Exchange has a public duty as well and must come forward to protect the interest of those for whom it is meant. On the one hand Morison Committee viewed that the Regulations go too far and interfere with the duties of the directors, while on the other extreme it was suggested that the Bomby Stock Exchange should adopt listing regulations on the basis of New York Stock Exchange which makes the publication and submission of annual returns to the share holders a condition for Listing. But in India this is provided by the Indian Companies Act and if the Exchange widens its regulations in this direction no additional protection shall be afforded to the share holders but it will simply amount to duplication.

There is a wholesome provision of the listing regulations which provides that at least 50 per cent of the issued capital, whether such issue be the whole or part of the authorized capital be offered to the public and allotted fairly and unconditionally. In addition to this a check is maintained on the formations of new corporations with insufficient capital by a provision in the Indian Companies Act which prescribes a condition for registration that a company cannot make an allotment of its shares unless an amount equal to minimum

1 Morison Committee Report.

subscription enough *(a)* to provide for the purchase price of any property purchased or to be purchased, *(b)* to defray the preliminary expenses payable by the company and any commission to be paid to a person for under-writing shares, *(c)* to repay any money borrowed by the company in respect of any of the above matter, and (*d*) would leave enough for working capital, has been subscribed by the public. This is quite a stringent condition and protects the investors ; and the provision of minimum allotment to the public laid down by the Listing conditions further guards their interest.

The Listing Regulations aim at avoiding the concentration of shares in a few hands and for that they demand the disclosing of the distribution of share-holders under various lots and also demand the names of the share-holders having highest number of shares. It is necessary with a view to ensure a fair market that a sufficient amount of securities, sought to be listed must have been sold to the public and that few persons by virtue of their holdings are not allowed to control the market and unduly raise the price of securities.

Calcutta Stock Exchange :—

The listing regulations of Calcutta Stock Exchange are not so rigid and comprehensive. The application for Listing is submitted to the full Committee of the Stock Exchange. Before permission is granted the company is required to furnish the following documents for the approval of the Committee :

(a) In case of new flotations, Articles of Association and prospectus if any.

(b) In case of existing companies, report on the working of two preceding years and any other further information required by the Committee.

The Company has to make a separate application for quotation of individual transactions in the official quotation list. Such an application is considered by the Official Sub-Committee. Recently by a modification of the Listing Regulations it is made obligatory on a company, seeking an official Quotation that the Articles should contain certain definite provisions protecting the interest of the investors.

Removal or Suspension of a Security from the List :—

The Committee of Management of the various Stock Exchanges are authorized to remove any shares from the list, if in the opinion of the Committee the Company has failed to comply with certain requirements of the Board. The rule empowering the Governing Board of the Bombay Stock Exchange lays down : "The Board may by a resolution passed by a majority of three-fourths of the members present at a meeting specially summoned at which not less than three-fourths of the total number of the members of the said Board shall have been present after one months notice in writing has been served upon the company, either for breach of or non-compliance with any of the conditions of admission to dealings, or for any other reason whatsoever recorded in the minutes of the said Board, remove such share either from the list of shares admitted to ready delivery or forward dealings or from both as the case may be."[1]

It is quite evident that the powers of the Board are restricted in this respect as no removal is valid unless it is passed by a majority of three-fourth of the members in a meeting specially summoned and in which at least

1. Regulation 282 (a), Bombay Stock Exchange

three fourth members of the Board are present. In cases when outstanding amount of any listed security appears to have become so limited as to make further dealings therein dangerous, it may also become necessary to remove the security from the list. It is because of the fact that too small a number of outstanding security is a source of danger to customers and brokers as well as to the public. A limited amount of stock is subject to grossest kind of manipulation. A few individuals by obtaining control of the shares might be in a position to fix an artificial price by occasional transactions on the exchange and if there exists a short sale, then these sellers will be compelled to cover their sales at these inflated prices.

Quotation List :—

An official quotation list is published by the Bombay, Calcutta and Madras Stock Exchanges. The publication of the Official List at the Bombay Stock Exchange was suspended for some times on grounds of war economy and lack of cooperation from its members. But under present conditions due to disturbed political situations leading to wide fluctuations in the prices of shares and securities, its publication is all the more important and useful so that reliable information may be placed at the disposal of the investors. And it is a satisfaction to note that the publication of the official list has been resumed at the Bombay Stock Exchange. Prior to the closing of forward trading quotations in the Bombay Official List were published in two groups viz. securities on ready list and on forward list. In the list at Bombay textile shares are most dominating, while jutes and coals are in prominence at Calcutta and plantations at Madras and sugar at Cawnpore. The 561 companies which are quoted on the Calcutta Stock Exchange offer opportunities for investment in 756 securities of which 574 are ordinary issues, 171 preferred issues and 11 Deferred issues. As againat 561 companies quoted on the Calcutta market, Bombay quotes only 147. Out of these 147, 24 are again well known to the Calcutta Stock Exchange.[1]

The 'Official Lists' contain the various prices at which business is transacted at the Exchanges and contain a description of lots in which business was transacted at particular prices. They also contain information regarding the authorized capital and paid up capital of the company, as also the amount of last dividend declared. The official list at the London Stock Exchange known as "The Stock Exchange Daily List of officially quoted securities" shows prices ruling from 10.45 A. M. to 3.30 P. M. on week days and between 10.30. A. M. and 1.00 P. M. on Saturdays and also the closing prices. According to the rules of the Stock Exchange no price can be inserted in the "Official List" unless the bargain is made on the Exchange between members. In case of securities in which no bargain was made the "business done" record gives the data and price of a bargain effected on any previous day and in some cases of inactive securities the data may be as far as three to twelve months. It is divided in numerous sections and securities are arranged in alphabetical order. The list is divided into a number of columns, the first two columns mention the authorised and the present amount of capital in case of industrials and the total amount issued and the present amount in case of government and municipal securities. The third column contains the denomination of a share. Columns are also provided for interest or dividends paid or to be paid. In case of fixed interest securities, actual dates on which interest falls are also mentioned.

From the information given in the list it can also be determined whether a security is partly paid-up or otherwise. Quotations are taken from the boards displayed in the various markets of the Stock Exchange. At the

1. Vide Appendix XIX.

London Stock Exchange quotation consists of two prices, the first being the price at which the dealers are prepared to buy the security and the second being that at which they are prepared to sell it. But frequently these quotations do not represent the actual prices at which it is possible to deal. The list also indicates, business done in a separate column and the price at which business was transacted is also indicated.

The supplementary list is prepared on the basis of official list and contains informations on all the points except that it includes quotations for those securities which are not officially admitted to the Quotaion List.

Facilities regarding the dissemination of quotations are also available by means of the "tape" for which Exchange Telegraph Company is responsible. The "Tape" is not a complete list of quotations of all the securities, but it is fairly comprehensive. It does not disclose the actual prices on which business is done but simply indicates quotations *i. e.*, the double price for buying and selling. The "Tape" also gives information regarding dividend announcement by leading companies as also certain important sporting events.

In India on the other hand public has mainly to rely on the daily newspapers and weekly financial journals, or on the daily or weekly market reviews published by the firms of brokers. But the benefits of the latter are confined to clients only. The utility of newspaper is also limited as quotations disclose merely closing prices from which an idea of business transacted in a particular scrip cannot be obtained.

Prices in these official lists are sometimes marked *x. d. or ex dividend.* This indicates that the price of the security does not include the dividend or interest just paid or is about to be paid and the dividend belongs to the seller. If the security is not quoted *x. d.*, the quotation indicates that the buyer is entitled to the dividend and if the dividend is paid to the seller before the buyer's name is registered with the company, the dividend actually received by the seller must be returned to the buyer. Security in that case is said to be quoted *cum-dividend.* It is customary for companies to close their transfer books for a certain period usually a fortnight for the preparation of dividend warrants, so that company's clerks may have open field for preparing dividend cheques without the necessity of making changes through transfers of ownership.

For each dividend or interest payment the rules of the Stock Exchange provide when the security is to be quoted *ex-dividend.* For example regulation 200, of the Native Share and Stock Brokers Association, Bombay, provides that "All transactions in shares shall be *ex-dividend* from the day on which interest or dividend is payable ; they shall be *ex-rights* from the latest day fixed for the receipt of applications for rights by the company ; but all transactions before that day shall be *cum-dividend* and *cum-rights*, provided that shares admitted by the Board to dealings for settlements shall be quoted *cum-rights* to the day fixed by the said Board but thereafter transaction shall be made *ex-rights.* The Board may in any particular case or cases declare that transactions shall be *ex-dividend* or *ex-rights* at any other time."

In other cases the buyer is entitled to receive all interest, dividends, bonus, rights and privileges appertaining to the shares purchased and for which the transfer books are closed during the pendency of the contract and the buyer is entitled when paying for shares on which a dividend or interest has been recommended or declared for which transfer books of the Company were closed before delivery to deduct the dividend, interest, bonus etc. declared or recommended, and the broker through whom transaction is affected is personally responsible for making final adjustments between the buyer and the seller.

Calcutta practice is also based on the same lines and its bye-laws provide that transactions in the shares of a company effected on the date of the declaration of a dividend shall be considered as having been done *cum dividend* during the whole day unless otherwise specified at the time of business. From the following morning shares shall be dealt in *ex-dividend.* In case of companies situated outside Calcutta deliveries will be made *cum-dividend* upto five clear working days before the closing of the books of the company, pending the declaration of dividend.

Madras Stock Exchange has adopted a different practice in this respect and regulation 20 (a) of the Madras Stock Exchange provides that unless otherwise agreed at the time of entering into a contract, all dividends or bonuses which may appertain to shares bought and remain unpaid on the date of the contract whether declared or not, shall belong to the buyer and all dividends or bonuses appertaining to shares, paid by the company on or before the date of the contract shall belong to the seller. For the purpose of this rule "the date of payment of dividend" shall mean the date on which the Company commences posting dividend warrants.

CHAPTER V.

TRANSACTION OF BUSINESS.

(A). General :—

Transaction of business on the floor of an Exchange is conducted through the agency of a firm of brokers who form the membership of Exchange. The rules of Stock Exchange Associations do not permit any outsider to transact any business without the agency of Brokers. Thus a person desirous of dealing at a Stock Market is required to come in contact with a firm of brokers by selecting a broker of highest repute. He is required to open an account with a broker he selects. But before opening an account with a new client, Stock Brokers like most other businessmen, usually require a personal introduction or a banker's or other reference, so that they may know the standing or credit of the party they are about to deal with and thus to avoid a disappointment, persons desirous of opening an account with a member of the "House" should always be prepared to give him a satisfactory reference.

Several methods of dealings are open to a member or to an investor. The ordinary methods are either ***for money*** or ***for the acconnt.*** In our country Exchanges mainly confine to dealings ***for Cash*** but Bombay being mainly a speculative market it is dealings ***for acconnt*** which are more predominating. Madras and Cawnpore Stock Exchanges though permit forward trading but the business is very insignificant. Calcutta Stock Exchange is mainly a Cash market, while Indian Stock Exchange, though permitting forward trading, is more or less defunct as forward transactions at this Exchange are void under the Bombay Securities Contracts Control Act, 1925.

(a) Dealings for Money :—

A Cash transaction implies that the transactions are actually paid for in Cash ***i. e.***, the purchase is for ready money. A ready delivery Contract has been defined as a Contract for the purchase or sale of securities for the performance of which no time is specified and which is to be performed immediately or within a reasonable time, which is a question of fact in each particular Case.[1] For example Regulation 321 of the bye-laws of Native Share and Stock Brokers' Association provides that—

"A bargain for ready delivery shall be for delivery and payment before 3 p. m. on the business day next following the bargains. If such day is Saturday, delivery and payment shall be made on the business day next following, provided that if the parties expressly stipulate at the time of the bargain, a bargain for ready delivery shall not be deemed invalid if delivery and payment for the stock is made not later than seven days from the date of the contract. Thus a period of seven days is allowed for delivery and payment in case of bargains "for money" while at the Calcutta Stock Exchange the buyer has to make arrangements for cash on the third day after the bargain and the practice of Madras Stock Exchange is the same as that of Bombay and period of seven days is permitted for delivery and payment.

(b) Dealings for the Account :—

Dealings ***for the account*** imply that the transactions will be taken up, paid for or "differenced" on the next settlement. Such transactions are frequently called ***Time bargains*** as some period must elapse from the time they are made

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1. Bombay Securities Contracts Control Act, 1925.

to the day they are closed and between this period the price of the security may materially alter either in favour or against the speculator. In this case the transaction can be closed at any time before the settlement and thus the speculator is enabled to take advantage of any variations in the price of the security and in some cases may also benefit by sudden and violent fluctuations. A greater portion of the dealings in time bargains are purely of speculative character. Time bargains are effected by persons who do not want to pay for and take delivery of securities they have contracted to purchase, or who do not possess the stocks they have agreed to sell. Such dealers anticipate that they will be able to buy or sell against at a profit before the settlement day and make a profit in "differences" of prices. Till recently transaction at the Bombay Stock Exchange were mainly ***Time Bargains*** and a very little cash business was transacted.

Prior to the beginning of the present century transactions at the Bombay Stock Exchange were confined to a few scrips of joint stock companies particularly of textiles and cotton ginning and pressing companies. There was no distinction between cash and forward scrips, as any share could be dealt in for forward settlement. There was a system of monthly settlement but the busines fell into three different kinds :—

(*i*). ***Tran Kagalia***, or three papers, consisting of the application form, transfer deed and share certificate :— The buyer had to pay cash against the delivery of documents on the same day or the next day after the bargain was made.

(*ii*). Second type of transactions involved a delay of about a week. The buyer had to pay on the delivery of shares which was made within a period of eight days from the date of the contract.

(*iii*) Delivery and payment on the monthly settlement :— It is this system which was prevalent before the suspension of forward trading due to the present war in June 1940.

(B) Method of trading :—

Let us take an example and suppose that a person has a few thousand rupees and wants to have dealings at a certain Stock Exchange, (say at the Bombay Stock Exchange). All the necessary formalities required for the investment of this money can be studied in the following stages.

(i) First step : —

As no outsider is permitted to enter the Hall of the Fxchange and is not allowed to transact business, the first step that the investor is required to take is to ***choose a broker.*** Brokers who are members of the Exchange are forbidden by the rules of the Stock Exchange to advertise and as such the selection of a broker might involve certain delay. He has either to consult some of his friends who have dealings with certain firm of brokers or their bankers, on request, might give the names of certain reputed firm of broker or else he can obtain a list of members from the Secretary of the Exchange and make his own selection. The list not only contain the names of the individual members but also the names of the firms whose partners are brokers. This list would simply tell him the names of the persons who are members of the Exchange and would give no indication for his selection, and if he does not consult some one who has dealings with certain firms of brokers, he has to make a random selection which may be to his advantage or otherwise.

If an investor cannot get into direct touch with a firm of brokers, he may transact business through one of his banks who are always willing to transact Stock Exchange business on behalf of their clients through one of

their own brokers. This practice, no doubt gives added security as if the broker should default the bank would see that its customer does not lose. Payment for securities may also be facilitated being credited or debited to the customer's account and the securities are automatically placed in the bank's strong room being held for safe custody. But at the same time there is a serious disadvantage as this would involve some loss of time and in the meanwhile the most *advantageous* time may be lost by the client due to some sudden movement in the price of security. Besides bank managers are not expected to be so well equipped to deal with inquiries about securities and may not be able to give an up-to-date advice to the client. Brokers being on the spot are able to watch all movements and are thus in a position to advise their clients in their best interest. Personal element in dealing in stocks and shares is as vital as it is in any other business. The more intermediaries you employ to do your business the less attention it is likely to receive. Clients dealing through banks unquestionably do not receive the individual attention which they invariably receive when they deal direct through their broker to whom they are personally known.

At the same time facilities regrarding the payment of securities through a bank and their safe custody are also available even if business is transacted through a broker directly as bank managers are always willing to undertake this work for their client on a very moderate commission. When business is transacted through a bank the investor may also be required to pay an additional commission to the bank unless the bank is a remisier (which as a rule is never so) to any firm of brokers at the Exchange and in that case would share in the commission charged by the broker. Thus in the long run it is always advantageous to have dealings through a broker directly and for which a selection becomes necessary.

Having selected a broker a letter would be written to him asking him whether he is willing to transact business for him and if agreed his advice might be sought.

(ii) Reference necessary :—

A Broker before he takes up the business of a new client would demand a formal introduction of the client or a reference from the bank so that he may rely on the financial stability and honesty of the client. "No boomaker and certainly no broker is going to deal with a client about whom he knows nothing. The ambitious horse backer or punter will have to forego the thrill of waiting to see if it has "Come off" unless he has previously made arrangements with a "bookie" while the man with a £1,000 will have to let his money burn a hole in his pocket unless he has been introduced to a broker."[1]

(iii) Placing an order :—

Now the investor having obtained the advice of his friends or having examined carefully a financial newspaper or on the advice of his broker would make up his mind as to what security is to be bought, and then an order would be placed with the broker to buy, say 100 ordinary shares of the Century Mills. To avoid unnecessary delay orders are generally placed by wire or telephone and are mostly abbreviated to avoid much cost. The order, for example, might be placed as, "buy for me 100 Centuries at 950." This order is a fixed price order and leaves no margin for the broker and may never be executed as the price may be fluctuating every few minutes except when the price falls below Rs. 950.

1. Mosley—Money Making in stocks and shares.

Other methods of placing the order are also followed which allow certain latitude to the brokers and at the same time safeguard the interest of the client.

A customer's orders may be classified according to the instructions given to the brokers (i) regarding the price at which the order is to be executed (ii) according to the length of the time, the order is to remain in force, (iii) or according to the length of time which may elapse before delivery must be made.

Classification according to price :—

Under this head the order may take any of the following shapes :—

(a) At best or at the market orders :

Such orders specify no price and must be executed immediately at the best price obtainable at the time. Such orders are immediately executed and no discretion can be exercised by the broker. It is this type of orders which are most frequently used in the market. In this case instructions should be "Buy (or sell) 100 Conturies at best."

(b) Fixed Price orders or at Limit :—

Such orders are to be executed at fixed prices mentioned by the client. Such orders may contain instructions as, "buy or sell 100 Centuries at 950." The instructions given here indicate that the broker is to buy these shares at a price of Rs. 950/- or below. Similarly an order to sell in this case can be executed at or above the price indicated. Some times instead of mentioning a definite limit, a little flexibility might be observed in the order *e. g.* the order might be worded as "buy at about Rs. 950." But this method is not very satisfactory from the broker's point of view as it leaves him in doubt as to how much more the client is prepared to pay and therefore definite limits are preferable by the brokers, for instance "buy not over 950" or "sell not under 950". Here it must be remembered that in giving a higher limit than the price ruling, the client is not offering the broker a higher price as happens when the goods are ordered from a tradesman. The broker is simply the agent and not the man who sells you the shares and it is always expected of him that he will act in the interest of his client and would buy at the lowest price or sell at the maximum price possible,

(c) Immediate or cancel order :—

Such orders are often used in place of an order at a fixed price. An example of such an order would be "buy 100 Centuries at 950- immediate." The word 'Cancel' may be used instead of immediate. Such orders are to be executed at once at the best possible price, and if cannot be executed at once because the prices are not favourable, the broker will cancel the order and make a report of the condition of market to the customer.

(d) Stop-loss orders :—

This system is used with a view to protecting oneself against a heavy fall or rise in prices. A stop-loss order to buy may read as "100 Century at 950 stop". On receipt of this order the broker will not take any action till the market price is lower than 950. But as soon as it reaches 950 and begins to rise, the broker must buy 100 shares at the best price obtainable. Similarly a customer who has a long interest and is required to sell may limit his loss which he will suffer in case the price declines below a particular point by means of stop-loss order. For example if A, a customer, buys 100 Centuries at 950 he can place an order with his broker to sell 100 Centuries at 930 stop. Thus the loss of the investor in this case would be limited to Rs. 20 per share, as soon as the price reaches 930 or begins to decline the broker will sell the

shares. A stop-loss order becomes a market order, when the price of the security reaches the stipulated price. The broker, in a rapidly declining or advancing market, may not be able to execute the order at the stipulated price, but he is required to act at once, when the stipulated price is reached and if a broker fails to act promptly and thus loses the opportunity to execute the order at the favourable price, he will be liable. A better security is afforded by a system of "put and call" options which also aim at limiting the loss of the investors. But options are not permissible at all Exchanges.

(e) Discretionary orders :—

These are orders which are left at the discretion of the brokers who in practice, seldom assume such responsibilities. This is generally used when an investor wants to buy or sell certain inactive securities and has full confidence in the brokers. The order may be worded as when the market looks ripe "buy (or sell) 100 Centuries". This can only work satisfactorily when there is a complete understanding between the client and the broker.

Besides these instructions regarding the price of the security, the order might limit the time during which the order is to remain in force. In certain cases no time limit may be prescribed when it is termed as an *open order* while in others the order may remain good for a day, or for a week or for a month or for an indefinite time till countermanded. In which case the orders might be worded as "sell 100 Centuries at 950; the limit remains good till cancelled" (G. T. C.) or good for a day, a week or a month. Such orders might encourage slackness on the part of brokers. Again the order might mention the period of delivery, whether business is to be transacted for cash delivery or for the account.

In whatever form the order is given it must be clear and free from ambiguity to avoid unnecessary delay in its execution as also to safeguard against all possible disputes. Unambiguity of language and brevity of expression are the two essentials of a good order.

(iv) Recording and the Execution of the order :—

All orders received are recorded in the first instance in a rough memo, and then copied in the order book. The rough memo enables immediate action on the order as its record in the Order Book entails some time. In practice verbal instructions or orders by telephone are also received and are also recorded in these books. In case a number of orders have been received they are re-classified according to scrips so that the strength of purchases or sales of a particular scrip can be exactly known and the broker may act in a way so that his orders might not affect the market adversely.

(v) The floor :—

It is the authorised clerk who actually transacts business at the Exchange Hall. The brokers hand over all the instructions to his authorised clerks. Small brokers who do not have enough business to be transacted, execute them personally.

The floor of the Exchange is divided into a number of markets and the name of particular scrip is mentioned there. The authorized clerk goes to the market at a place where dealings in that particular share are transacted.

Unlike London Stock Exchange members in India are not divided into Jobbers and Brokers and thus no two prices are quoted for a particular scrip. The authorised clerk himself may quote his price for any sale or purchase according to the conditions of the market. He may say "I buy at 52, while the dealer opposite might come down from 54 to 53/8 and let us suppose that there the bargain is closed and order executed. In making a bargain generally,

the figures in hundred's place and the thousand's place are omitted. When it is said that the rates of Centuries is 52 or 54, or 53/8 it means that the rate is either 952, 954 or 953/8. These figures where hundredth place is omitted may not give any indication to the client or to a layman who is quite ignorant of the Stock Exchange practices. But to a dealer at the Stock Exchange they create no difficulty as they are fully conversant with the figures omitted.

All bargains are by word of mouth and no written contracts pass at the Exchange Hall between the parties concerned and a mere word or the moving of the neck indicating a purchase or a sale closes the bargain and places the responsibility on buyers and sellers both. As soon as a bargain is closed both the parties record abbreviated particulars in pencil on a pad of a handy pocket size. This shows the importance of a few minutes to a dealer at the Exchange and the hurry and the haste with which the clerks move about during the working of the Exchange. The clerks rush in and out of the market to their offices, noting down brief particulars in their pads while moving or going to their offices in the upper storey on the lift.

The pad is divided into two parts, purchases are entered on the debit side and sales on the credit side. The number, description of securities and the name of the parties from whom bought or sold are recorded.

Transactions in shares take place in certain lots[1] according to the value of shares and securities. The regulations of every Stock Exchange Association prescribe certain lots in which delivery is to be claimed unless otherwise agreed at the time of sale.

Dealings can take place only in those securities which have been admitted to dealings at the Stock Exchange. At the same time securities quoted at other Stock Exchange in India can be dealt in at Bombay for cash dealings even when the governing board has not given the official quotation of that security

(vi) Contract Notes :—

At the closing of the business the authorised clerks return to their offices and the details of the transactions are recorded from the Memorandum books and from the pads of the clerks into the *Kacha soda* books and from there they are recorded into dealings books or *pucca soda* books separate books are maintained for cash and forward delivery transactions. Details regarding brokerage snd names of the parties are also recorded. The broker then makes a contract note to be delivered to the other party. Prescribed forms[2] of Contract Notes are to be used by the members of the Association. Different forms of contracts notes are to be prepared for Ready and Forward delivery. A contract Note is also sent to the client. It must be signed by the broker himself or his attorney who has been expressly authorised to sign on his behalf. Contract Note must be properly stamped. It also contains details regarding brokerage as well, but in case of contract note for cash delivery there is no separate brokerage column as is provided for in the contract note for Forward Delivery. Besides, a memo giving out the details of the amount to be paid to or to be received from the client, and details of brokerage charged, transfer fees in case the buyer wishes to get it transferred in his name is also sent to the client.

The next day the contract notes are compared by each party between 12 to 3 p. m. and when comparison has been made the checking clerk of each party shall put down his signature in each other book, which is a proof that

1. Vide Appendix XX

2 See Appendix XXI

the contract notes are correctly prepared. Only certain clerks who are so authorised to do the work can sign on behalf of their brokers and their specimen signatures are noted on a card issued to them and which they are supposed to carry with them in the Contract Hall. All discrepencies or errors are notified to the principals and are amicably settled in practice. Generally parties agree to share the loss involved due to genuine errors equally and it seldom happens that the disputes are referred to Arbitration Committee. For any mistake in the contract notes the client is not responsible and his position remains intact. It thus cannot be denied that the system of bargaining by word of mouth without any repudiation reflects the prevailing high standard of honour in the Exchange.

(vii) Commission :—

A broker does not charge any Commission for his advice. It is only when the transaction has been actually effected that a commission is charged. Unlike a doctor who is paid a consultatation fee, whether he prescribes actual medicine or performs an operation or not, the broker advises without charge. But sound advice is always in the interest of the broker nnd may secure a huge amount of business for him in the long run. Stock Exchange rules have provided a schedule of minimum brokerage[1] according to which a commission is charged by the brokers. This is with a view to avoid unnecessary competition and the under-cutting of commission. Simply minimum brokerage is prescribed and as such a broker is allowed to charge anything more than the minimum but in practice it seldom happens due to competition and then the minimum becomes the maximum. Bombay Stock Exchange rules permit a concession on the scales of brokerage at the discretion of the Brokers provided the reduced scale remains half of the original minimum scale and usually this concession is allowed by the brokers. A broker is allowed to share brokerage with any other broker outside 50 miles of Bombay, or with his remisier or with his authorised clerks but in no case he must part with more than 40 per cent of the brokerage charged. It must bo noted, however, that the minimum brokerage rule is not applicable for each transactions in the Ready Market and brokerage, even in case of forward transactions comparatively does not form a very important source of the income of the brokers as it is the business on their own account which forms the principal source of their income.

(viii) Settlement :—

The Settlement procedure is to be separately studied in two parts—

(*a*) Settlement in case of Ready delivery contracts and

(*b*) Settlement in case of Forward delivery contracts.

Let us study the Bombay practice and repeat our illustration. A of Agra orders his Brokers X, Y, Z, & Co. to purchase 10 Centuries. The brokers were able to purchase at 945 from D. L. G. & Co. who have sold on behalf of their clients B having purchased from C at 940 through his broker E. F. G. & Co. This transaction has passed a chain as under :

Orders to sell	Sold to	Having Received	Re-sells to	An order to purchase	
				→X.Y.Z← from	
& Co. (Brokers) 10 shares @ 940	& Co. 10 shares @ 940	their client B		& Co. @ 945	of Agra
		and			

1 Vide Appendix XXII.

(a) Ready Delivery Contract :—

Securities on the cash list are divided into two classes—Cleared securities and non-cleared securities, and procedure regarding settlement also differs accordingly. Cleared securities are settled through the Clearing House, while non-cleared securities are settled by the process called "Hand Delivery" *i.e.* between the members themselves without the intervention of the Clearing House.

(i) Non-cleared Securities :—

A Ready delivery contract implies that the parties to a contract are intending to take delivery and pay for the share.

The seller E. F. G. & Co. having received the share certificate from his client C would issue a sellers delivery ticket on Monday following the date of the contract. The sellers Delivery Ticket, known in the market as *Kapli* is to be prepared in duplicate. By this ticket Seller's broker informs the other party that they intend to deliver the shares. The purchasing broker will sign the duplicate in black and return it to E. F. G. & Co. The original in red is retained by the buying broker. D.L.G. & Co. will also issue *Kapli* in duplicate to X. Y. Z. & Co. who would return the duplicate duly signed. *Kaplis* should be delivered to the buying broker before 3 p. m.

After 3 p. m. *Kaplis* are circulated in the settling room. The clerks of all the brokers assemble there and by shouting names of the parties concerned, buying parties are found out and duplicate tickets are received from them after they are checked and signed. An official of the Exchange is also present and if any buying member is absent the *Kapli* is endorsed by such official as a proof of the fact that the *Kapli* could not be issued due to the absence of the other party. *Kapli* is again presented at the office of the party absent, and if even now he refuses to accept it the selling member may exercise his right of selling-out the shares and demand damages.

On Thursday, the payment day, the selling broker would deliver the share certificate along with the necessary transfer forms duly signed by the transferor C and properly witnessed. The necessary share certificates and Transfer Deed would be delivered at the buying brokers office. When delivery is made, payment shall be made. The delivery of shares can also made in parts and the buyer is bound to accept it. X. Y. Z. & Co, would send a memo to A, along with a contract note on the next day of the transaction showing various particulars as under—

	Rs.
10 Shares of Century Mills at 945	9,450—0—0
Add Brokerage at the rate of -/8/-	
for every 100 Rupees or part thereof per share.	50—0—0
Stamp charges 1/2/- per cent	106—6—0
Registration charges 4 annas per share	2—8—0
	9,608-14—0

A on receipt of this memo will send a cheque for Rs. 9,608/14/0. D. L. G. & Co. having received the certificate from E. F. G. & Co. will hand over the certificate and the Transfer Deed to X. Y. Z. & Co. who will receive the same for Rs. 9,450

(ii) Cleared Securities :—

The procedure in essence is the same, only difference being that the transaction is settled through the agency of the Clearing House and the intermediate parties are set aside. The bargain in such securities made on

any business day are to be settled on Thursday the following week and the day is known as the Day of Clearing. Bargains made on Saturday are deemed to have been made on Monday following. On Monday the seller would make out a Seller's Clearance Ticket in duplicate and is sent to the buyer who retains the original and returns the duplicate duly signed.

On Wednesday, preceding the day of clearing the seller is required to submit to the Clearing House a Clearing sheet with delivery forms and Receipt forms. The clearing sheet shows details of the security purchased and the value to be paid on the debit side and the account of each security sold and the money to be received on the credit side and also indicates the net balance. If it shows a net debit balance, the member also sends a cheque of the amount while if it shows a credit balance a draft on the Clearing House is attached.

On the Clearance Day, the securities sold, together with the necessary transfer deed are delivered to the Clearing House by the sellers. The buying member receives the securities from the Clearing House on the day following the day of Clearing. The clerks who are authorised to receive securities on behalf of members sign a sort of receipt for the delivery of shares.

(b) Settlement of forward delivery contracts :—

For forward contracts the year at the Bombay Stock Exchange is divided into twelve settlements, as the settlements are monthly. The Governing Board every year fixes twelve account and settlement days for the next year. Ordinarily each settlement terminates in the last week of the month and the settlement is named after the name of the month. In forward bargains, business is done not with the intention of taking delivery and making payment but with the intent of making a profit from the buying and selling operations during the course of the month. Legally every contract for sale connotes an intent to deliver the shares, but in practice, it seldom happens. During every settlement there are a number of transactions between members and the crossed out transactions are eliminated and the net balance delivered and paid for. All such bargains are cleared by the Clearing House, which makes delivery and payment simplified. When the settlement day arrives either (*i*) the delivery is taken up which very seldon happens or (*ii*) the transaction is reversed *i. e.*, a purchase is reversed by sale and *vice versa*, the difference being claimed or received or (*iii*) is carried over.

Forward transactions are made only for the current settlement but generally transactions for two settlements are concurrently allowed and made for four days at the end of each settlement. These four days run from the last date of the settlement to three days in the next month. Supposing February settlement end on 3rd February then for four days 31st Jan., 1st, 2nd. 3rd February there will be two accounts simultaneously opened the February and March settlement so that those who do not wish to take delivery or reverse their transaction could *budli* their transactions during these four days. On 3rd February, February settlement would close and thence forward only March settlement will be the current settlement. In fact, however, the two settlements overlap. The new settlement does not begin the same day, the previous settlement ends. It begins four days earlier.

(i) Settlement in forward bargains extends over a period of six days. On the last day of the settlement period the buying broker compares his outstanding business by exchanging Memorandum slips, with the selling broker. In practice this comparsion is seldom made. Second day is termed as the *Clearance* or the *Ticket Day.* When making-up prices are fixed by the Board. Members on this day submit to the Clearing House the Clearance Lists and Delivery List showing the balance of securities to be taken or to be delivered

and the net amount ; crossed-out transatctions and the total number of shares bought and sold are also submitted in separate forms. All these forms must be lodged at the Clearing House at any time from 12 noon to 5 p. m. Third and the fourth days are devoted to delivering the shares to the Clearing House. Securities to be delivered are entered in a prescribed form. The fifth day is the *Pay Day* or *Account Day*. On this day members submit Balance Sheet and a statement of differences to the Clearing House. Any balance shown in such a statement is debited or credited to his account with the Clearing House. Any member failing to pay before noon the next day after *Pay Day* is declared a defaulter. Market is closed for forward business in shares on this day. On the last day known as the *Settling Day* members receive shares and payment from the Clearing House.

Buying-in and Selling-out : --

If the seller in case of Ready Delivery Contracts, does not issue a *Kapli* on Monday for contracts in the preceding week or fails to deliver the shares after he has issued *Kapli*, the securities will be bought-in against him. Similarly if a buyer refuses to receive a *Kapli* or does not pay for securities when so tendered, the securities will be sold-out on his account. Similarly in case of forward transactions, if a member fails to pay within the time prescribed, such securities are sold-out. On the other hand if there is a default on the part of the seller the buyer may buy-in the securities. But if it is not possible to buy-in the securities, the matter can be referred to Arbitration Committee. In case of buying-in or selling-out the securities, it is not necessary that a notice should be given to the defaulting party. The Governing Board of the Bombay Stock Exchange is also authorized to suspend buying-in rule if in its opinion such suspension is desirable in general interest. Such suspension is effective only for 24 hours and for any longer period previous consent of the Government, is necessary. The right seems to be quite reasonable as it would compel the buyers to offer reasonable and acceptable terms to the sellers.

(ii) Transaction being reversed and Differences paid : -

Generally forward bargains are entered into with a view to take advantage of the market fluctuations and to reverse the transaction before the Settlement and thus receiving or paying the difference. Such differences are paid or received on the basis of the price prevailing in the market at the time of settling Let us suppose that A in our old illustration having purchased 10 Centuries at 945 through X. Y. Z. & Co. notices the rising trend in prices and wants to take advantage of the same and sells off his shares, say at 990 the usual commission being paid to the selling broker.

On the last day of settlement the Broker would send his statements as under :—

Date	Bought or Sold	Particulars.	Rs.	Rs.
	Bought	10 Centuries at 945	9,450	
		Add Commission	50	9,500
		10 Centuries at 990	9,900	
	Sold	Less Commission	50	
		Balance Credit	9,850	350
				9,850
		Balance due to you	350	

On the other hand C in our last illustration has sold 10 Centuries at 945 and had he given delivery he would have realised Rs. 9, 450 less Rs. 50 brokerage *i. e.*, Rs. 9,400. He has sold in the expectation of a fall in price. Price however rises and if he does not wish to carry over and wants to clear off the market he closes his bargain at a loss and thus would instruct his broker E. F. G. & Co. to purchase 10 Centuries, say at 992 while purchasing, the broker will charge his usual commission. E. F. G. & Co. would send the statement in the following form :

Date	Bought or Sold	Particulars.	Rs.	Rs.
	Sold	10 Centuries at 945	9,450	
		Less Commission	50	
				9,400
		10 Centuries at 992	9,920	
	Bought	Add Commission	50	
			9,970	
		Balance (Debit)		570
				9,970
		Difference due from you		570

In this way no delivery of shares is taken or given but the transactions are reversed whether at a profit or loss and difference is paid or received.

(iii) Carry Over or Budli :—

Carry over or Budli implies the postponement of the bargain to the next settlement. The Budli is effected and the Budli brokerage is paid in order to postpone payment or delivery from one settlement to another. This in fact is the continuance of purchases and sales without their closure. Carry over is affected generally when prices do not move according to the expectations of the parties concerned. Budli charges are usually ¼ of those mentioned in the minimum scale of brokerage.

How effected :—Budli is effected by means of two new bargains. A bull transaction is carried over by a sale for current settlement and repurchase for the next settlement. A bear transaction is made a Budli by a purchase for the current settlement and re-sale for the next settlement. In our example if A does not want to take delivery nor wishes to deal on "differences" but wants to carry over the transaction to the next settlement, he would sell these shares for February settlement and re-purchase for the March settlement and in this way he would be in the same position on the next settlement. By the first transaction the purchase shall be reversed and by the next he would again appear as a purchaser. Thus the result of these two transactions are quite apparent. The original bargain is completed for the current settlement and new transaction at new prices is opened up for the next settlement.

How financed :—The Bull operator who has contracted to buy but does not want himself to pay for the securities purchased or does not have ready money to pay against the delivery of securities (i) may approach ***Budliwalas*** for credit. There are a number of persons known as Budliwalas inside and outside the market who conduct this business of affording facilities for carry over. This class includes a number of people belonging to moneyed class and banks. These persons lend money to the bulls against the securities of shares and charge a comparatively high rate of interest.

(ii) Bull and Bears accommodating each other :—

It may be arranged that the seller will not press for payment against the delivery of shares and in return may charge an interest from the purchaser for accommodating him. This in fact implies that he bull operator has borrowed money from the seller and the settlement is postponed in consideration of an agreed amount of interest. Similarly if the Bear (Seller) has no securities to deliver on the settlement day, he may be required to borrow them with a view to deliver them to the parties concerned. This may be avoided by arranging to pay a certain amount of interest to the Bull who would agree to defer delivery of shares. In fact these transactions involve that the bull lends the bear securities and the bear lends money to the bull. The amount payable by the bulls as interest is termed as ***Budli Gala*** or ***contango*** and depends on the state of the market as also on general financial outlook. When the market becomes over sold in a particular scrip ***i. e.*** there are more securities to be borrowed than the Stock available the sellers are more anxious to carry over their transactions to the next settlement and as a result the quotation for the next settlement becomes lower than for the current settlement and the ***budligalas*** are reversed which means that bulls instead of paying interest, charge interest from the Bears. Thus bulls not only get money on their shares but also earn a certain rate of interest. Similarly an over-bought bull account raises the budli gala rate, that is in scarce money conditions if there exists a bull position bulls desirous to borrow money to a greater extent to postpone their transactions it would raise the rate of interest which the bulls shall be required to pay. It is because of the fact that under scarce money conditions trade and commerce compete with Stock Exchange for the employment of money and this leads to a top heavy market and an increase in Budligala rates.

Backwardation :—The heavy short sales by the operators lead to a big bear account in the market. Under these circumstances the supply of securities falls short and the bears are more anxious to carry over the delivery of shares to the next settlement. Bulls instead of paying a contango for not taking delivery of shares, receive a sum of money known as ***backwardation*** from the bears for accommodating them not to deliver the securities. It is a sum which relates to something given back to the purchaser out of the purchase price. Backwardation may be defined as a rate paid by a bear to enable him to renew a bargain until a later settlement.

Some time neither parties pay any interest to the other for carrying over the transaction and in that case securites are said to be carried over ***even.***

Budli not a loan :—It must be made clear here that the process of carry over is not a loan in the legal sense. It is double transaction of a simultaneous purchase and sale. The Budliwala is entitled to deal with such shares as the sole owner of them. His obligation is to deliver the securities purchased, but not the identical securities on the next settlement day. A transaction can be carried over any number of times but may not be found beneficial in the long run as a major portion of the prospective profit may be wiped off through brokerage and contango charges. Budli business forms an important part of Stock Exchange dealings and is an indispensable counter part of speculation

and "blood and bones of speculative market." Though neither parties are under any obligation to grant "Carry Over" facilities, and if they like they can take delivery of shares and pay for them, yet in actual practice they are always granted; but the broker must look into the financial position of the client very carefully.

(C) Government Securities :—

Government securities are the loans floated by the Government of India and Provincial Governments at fixed rates of interest. They may be generally classified into three forms (a) Stock (b) Bearer bonds and (c) Promissory notes.

Stock is a registered security and its transfer is possible by a signed transfer deed, but no stamp duty or transfer fee is payable. While ***bearer bonds*** are transferable like currency notes merely by delivery, no endorsement being necessary. Interest coupons are attached to such bonds, but they are not so popular in India as in the Continent. The third form of security viz. a ***promissory note*** contains a promise by the Governor-General-in-Council on behalf of the Secretary of State for India to pay a certain person a specified sum either on a specified date or after certain notice and to pay interest thereon at a certain rate half-yearly on certain specified dates. It is this form of security which is most popular. Such notes can be transferred by endorsement and delivery. The existing Indian Rupee loans may be divided into two classes, terminable and non-terminable. Non-terminable loans are repayable at the option of the Government. There is no fixed term at the expiry of which the repayment of such loans by the Government is obligatory. They are like the ***funded*** debts of the British Government. On the other hand ***Terminable*** loans are repayable either at a certain fixed date or not earlier than a certain fixed date and not later than another fixed date.

Dealings :—

Government Securities form an important form of investment at the various Stock Exchanges in the country. People with limited resources generally prefer this kind of investment as the money lent to the government always remains in tact inspite of market fluctuations. Besides, the yield on these loans is guaranteed and is regularly paid as the loans have the sanction, authority and prestige of the Government. Various institutional investors like insurance companies and banks invest a major portion of their resources in Governmet securities. These securities form a ready form of collaterals for bank loans. The price of these securities is supported by the Reserve Bank of India through its market operations. Fluctuations in Government securities are very narrow and in normal times they are dependent upon money market conditions.

The general name 'securities' include securities of the Government of India, Provincial Government, debentures, stock of Port Trusts and Municipal Corporations and such other securities as come within the provisions of the Negotiable Instruments Act, 1887. Business in these securities can be transacted either for "Ready Delivery" or for the Account. Bargains for ready delivery at the Bombay Stock Exchange are for delivery and payment on the next day after the bargain. But if expressly stipulated at the time of the bargain, the delivery may be made within seven days.

As regards forward bargains the unity of trading is Rs. 25,000/—face value and all such bargains for lesser amount are prohibited. The settlement is fortnightly. There is very little specialization in dealings. Practically all the brokers deal in all kinds of securities. The procedure is practically the same as in case of shares.

On the day prior to the settlement day, which is called the Ticket Day, those members who have outstanding or open business for the settlement *i. e.*, those whose business is not squared and who wish either to give or take delivery, submit a list of their business to the Clearing House of the Stock Exchange on a specified form together with the delivery or Receipt Tickets which can be purchased for a nominal amount from the Exchange and which are differently coloured for different loans. Each Ticket is for lots of Rs. 25,000 only. The next day, the Clearing House returns these tickets with the name of a buying or selling member as the case may be. Suppose A has sold Rs. 1,00,000 worth of a loan and wishes to deliver it. He submits his list and four sold tickets to the Clearing House. The next day the Clearing House returns these sold tickets to A with (the name) or names of members who have purchased them and wish to take delivery. In this way the actual sellers and buyers are brought together and they arrange among themselves to give and take delivery at the rate fixed by the Exchange for that settlement. The difference between this rate and the original rate of purchase and sale is adjusted, received and paid by the members among themselves. The members however, who have neither to take nor give delivery but have only to take or receive difference for the settlement submit their outstanding list to the Clearing House without tickets.[1]

Interest accrued is not included in the bargain but is simply adjusted and the buyer is required to pay the interest accrued to the seller and the broker sends a statement as under ;

Suppose A wants to purchase Rs. 5,000 worth of $3\frac{1}{2}\%$ Government Paper, interest payable on 30th June and 31st December. The purchase was made on 30th September. Thus on 30th September three months interest was due.

5,000 $3\frac{1}{2}\%$ Paper at 95/—		Rs. 47,500—0—0
Add Brokerage /1/6 per centum		Rs. 31—4—0
		Rs. 47,531—4—0
Interest accrued at $3\frac{1}{2}\%$ for three months	Rs. 437—8—0	
Less income tax at the maximum rate at —/4/9 per rupee	Rs. 129-12—0	
		Rs. 307—12-0
	Total payable	Rs. 47,839— 0-0

(D) Calcutta Stook Exchange :—

The custom of the Calcutta market differs from other Stock Exchanges, since all the transaction are done on cash basis. There are no settlement days and securities are transferred under blank transfers generally. Deliveries are required to be made on or after the second working day after the date of the contract and at or before 4 p. m. on that day. This rule is binding on both buyer and the seller and failure on the part of the seller to deliver the securities is reported to the committee who decides whether proper reason for non-delivery has been given, such as sub-division of scrip or non-receipt of scrip or transfer deed from up country. The committee, then if it so decides may after two days notice being given to the defaulting member by the Secretary allow the buyer, the option of either cancelling the contract or buying-in shares in the open market at the risk of the seller. Delivery of shares may be made in parts and the buyer is required to acknowledge the

1 R R. Nabar—A Guide to the Bombay Stock Exchange.

receipt of the shares, if insisted by the sellers. And in case of Contributory Shares the buyers name must be inserted on the transfer deed Thus in case of sales of securities on which any liability exists, the purchasing member shall be responsible for the fulfilment of such liabilities. The buyers of contributory shares are required to get the shares transferred in their own name within 30 days of the date of delivery. They are liable for all calls from the date of the purchase. Though the cost of the stamp to be affixed on the transfer deed is to be borne by the buyer, it is the duty of the seller to affix the necessary stamp before giving delivery to the buyer. Shares tendered with unstamped or insufficiently stamped transfer deeds are not a good delivery. The seller may add the cost of the stamp to the bill when giving delivery to the buyer.

Business in Government securities is transacted on ready delivery or delivery and receipt of scrip basis. In the latter case the seller can deliver the security within 14 days after the date of the bargain, otherwise the seller will lose his right of claiming interest from the buyer for more then 14 days. If the 14th day ends on a Stock Exchange holiday or on a non-delivery day, delivery would by made on the last working day. The delivery of Government securities is required to be made in lots of not more than Rs. 25,000 each. The buyer is allowed to refuse the delivery of government securities in the following cases :—

(a) If there are less than two unused gates or cages for endorsement.

(b) when interest has accumulated for eight calendar months or over.

Though business in theory is for ready delivery, it often lapses into contracts for delivery after a month or so and this resembles trading in futures and owing to a number of circumstances, such as splitting or registration of the shares, or the transfer books being closed on account of dividend payment, delivery is often delayed. Operators take advantage of these circumstances and sell short a number of popular scrips. There is also a laxity in the enforcement of rules which are more often violated. "Apart from Jute and coal shares the market is by no means a free one and unless actual buying and selling orders have come from outside, it is generally impossible to do business. Only a fraction of the transactions which take place in a day are actually recorded and the Stock Exchange official quotation list appearing in the daily papers is often misleading to the public. The Exchange contains many members who are speculators pure and simple and act solely as intermediaries between other members and these people have undoubtedly contributed to a change in the atmosphere of the Stock Exchange, which has become more and more a field for over-speculation and gambling." There are several other defects such as the system of blank transfers, the absence of any settlement days, and it is necessary that the Association should appoint a strong and efficient committee with a view to carry out reforms and to bring about an improvement in its methods and operation.[1]

There is not the least doubt that the Calcutta Stock Exchange, inspite of all inherent defects is rendering an indispensable service to the investing community of the country. It is because of its existence that coal and jute companies situated in the eastern provinces could obtain the required amount of capital. It not only specializes in jute and coal shares but transactions can also be effected in a number of miscellaneous securities, including sugar, engineering, banks, insurance etc. and thereby offers facilities to investors all throughout the country.

1. Loknathan · Industrial Organization.

In Madras persons that take up shares are usually permanent investors and there are a few transfers. Business is done for ready delivery. The rules are similar t● the Bombay Stock Exchange. Delivery of shares sold must be made by the seller on the 7th day after the day on which transfer forms were delivered. Settlement of forms and transactions take place every month.

Transactions in Government Securities are done on the basis of accrued interest till the date of payment going to the seller. Deliveries of government securities unless otherwise specified at the time of closing the transaction shall be on cash terms *i. e.*, delivery within seven days from the date of the contract. If the seventh day is a holiday the due date is the next working day.

Inspite of the fact that very little business is transacted at the Madras Stock Exchange, it ranks third amongst the leading Stock Exchanges of the country and provides a ready market for the shares of plantation companies. Its existence is necessary because of the fact that such companies are mainly registered in Southern India.

Ahmedabad Stock Exchange also permits forward dealings and delivery and transactions are settled once a month. Other Stock Exchanges of the country, namely Punjab and Hyderabad Stock Exchanges permit only cash dealings and delivery is to be completed on or after the next working day after the date of the contract. In case of failure of the seller to deliver the shares within 14 days, the buyer may report the fact to the Committee and may cancel the contract or buy-in the shares in the open market at the risk of the seller. Every clerk of the Punjab Stock Exchange enters the details of the transaction in a carbon copy note book and hands over the carbon copy to the clerk of the Exchange before leaving the Hall. This shows that the volume of business is insignificant.

Cawnpore Stock Exchange permits both cash and forward transactions. In case of ready delivery contracts shares and relative transfer deeds must be delivered not later than the 7th day from the day of the sale. Otherwise the securities are bought-in. Forward contracts are settled once a month, however there are interim settlement of differences once a week during the currency of transactions.

(E) Transfer of Shares :— *(a) Procedure :—*

Procedure of transfer differs with the kind of securities which may also be classified according to the method of transferring them from one owner to another. For this purpose securities may be classified in to (a) Bonds and Shares to Bearer, (b) Inscribed Stock and (c) Registered Stock and Shares.

(i) Transfer of Bonds and Shares to Bearer .—

Such securities are transferable by mere delivery from hand to hand like bank notes. No transfer formalities are complied with. Dividend coupons attached to such securities are cut off and presented to the paying authority. But such bonds are not very popular at the Indian Stock Exchanges.

(ii) Transfer of Inscribed Stock :—

By Inscribed Stock is meant the stock for which no actual certificates are granted to the holders, but their names and the amount of stock they hold are inscribed in a ***Register***, kept for the purpose. Such stocks can only be transferred by the holder (or his representative by power of attorney) signing the Register indicating that he has assigned his right to some other person. They are thus considered one of the safest form of security against fraud.

The transferor is identified at the transfer office that he is the rightful owner of the stock and his signatures are witnessed. The buyer is also required to go to the transfer office and sign his name in the register. This is called 'Acceptance of Stock.'

(iii) Transfer of Registered Stock and Shares :—

Registered securities, as their name implies are registered in the share register of the company or Government that issues them. Generally all Joint Stock Companies have their capital in the form of registered stock or shares, and it is these securities which are mostly dealt in at the Stock Exchange. Such securities differ from stocks and bonds to bearer in having no coupon sheets attached to them, dividends being payable by warrants which are posted to the registered address of the holder. They cannot be transferred by mere delivery as in case of bearer bonds nor by putting down the signature in a register kept for the purpose as happens in case of inscribed stock but by a properly stamped transfer deed.

A share certificate which is issued to a share holder by a company is merely a statement issued under the seal of the company that a certain person is registered as the holder of the stock or shares. It does not itself constitute the title to the stock and the holder cannot transfer the stock to some one else by merely handing the certificate to the purchaser. The change of ownership is effected by the deed consummated by the entry in the company's register, which is a statutory book, kept for the purpose by every company incorporated under the Indian Companies Act.

When registered securities are to be transferred duly signed transfer deed must pass from the seller to the buyer. The transfer deed is stamped with an *advalorem* duty. Stock Exchange authorities insist on the adoption of a common form of transfer deed by all companies. However, certain companies have their special form of transfers. Prominent among them is the Reserve Bank which requires a number of details to be given, as according to Reserve Bank Act, 1935 no share holder can appear on more than one register nor can he hold more than 200 shares in his own name or jointly with another person or persons.

The seller intending to give delivery of shares should sign the transfer deed. His signatures should be attested by a witness. The transfer deed would then be sent to the broker, He generally does not write anything in the body of the deed. The transfer deed is then handed over to the buying broker who returns it duly signed and attested by a witness. The buyer is also required to put down his specimen signature on a small perforated slip provided at the right corner. The transfer deed is then returned to the broker for registration in the company's office. The buyer in addition to the price of the shares and brokerage is also required to pay the necessary stamp charges and the transfer fees. The details are filled in by the broker who sends it to the company for registration together with the share certificate. At the company's office the transfer deed and the share certificate are examined and if everything is in order a *Kachcha* receipt stating that the shares have been lodged with the company for registration is issued. After a week or so a temporary receipt in lieu of share certificate known as *pucca* receipt is issued which states the name of the buyer indicating that he is enrolled as a share holder and that relative certificates will be issued after a certain period. This receipt is practically as good as the share certificate for the intervening period. When the certificate is ready it can be obtained on tendering the temporary receipt to the company with proper endorsement. All these formalities are undertaken by the broker on behalf of the client who simply endorses the *pucca* receipt. The practice of certain companies is to issue share certificates in the name of the buyer without the intervention of temporary receipts.

Before the passing of the Indian Companies Amendment, Act 1936, procedure for registration of transfer of shares was entirely left on the Articles of the company. But now the new Act lays down the following rules for the transfer of shares:—

(*a*) An application for the registration of the transfer of shares may be made either by the transferor or transferee.

(*b*) If such application is made by the transferor in receipt of partly-paid shares the company must give notice of the application to the transfree. The company must unless objection is made by the transfree within two weeks from the date of receipt of the notice enter in its register of members the name of the transfree.

(*c*) Notice to the tranferee shall be deemed to have been duly given if despatched by pre-paid post to the transfree at the address given in the instrument of transfer and shall be deemed to have delivered in the ordinary course of post.

(*d*) The company will register a transfer of shares or debentures only when it receives the proper instrument of transfer duly stamped and executed by the transferor and the transferee along with the scrip.

(*e*) If it is proved to the satisfaction of the directors of the company that an instrument of transfer signed by the transferor or transferee has been lost the company may, if the directors think fit, on an application in writing made by the transferee and bearing the stamp required by the instrument of transfer register the transfer on such terms as to indemnity as the directors may think fit.

(*f*) If a company refuses to register the transfer of any shares or debentures the company is required to send to the tranferee a notice of refusal within two months from the date on which the instrument of transfer was lodged with the company.

(*g*) A transfer of share or debenture or any other interest of a deceased member of company made by his legal representative, shall be as valid as if he were a member at the time of the execution of the instrument of transfer, although he is not himself a member.

It is the duty of the company to compare the signatures of the transferor, as when a transfer is forged the true owner's title is not defeated thereby and he can sue the company to have his name restored to the register of members. In order to minimise the danger incident to the registration of transfers, it is usual for the company on the deposit of a transfer, to write to the transferor a letter informing him of the deposit of a transfer and stating that it will be registered unless any objection is received by return of post. This course of procedure practically operates as a safeguard, but in adopting it, a company does not relieve itself of its obligation to ascrtain the authenticity of the deposited transfer. The transferor may not receive the notice, and by not replying he does not estop himself from asserting his rights at some subsequent period. If a company registers a forged transfer, it may remove the name of the transferee from the register on discovery of the forgery but if a certificate of title has been issued to the transferee and he or bonafide buyer from him has acted thereon, the company may be liable to damages.

When a transfer has been properly registered, all the rights and obligations of share holder are transferred from the date of the transfer, but his rights to dividends already declared are not transferred unless expressly so provided nor are the liabilities in respect of calls already made. Of course, the right to future dividends and the liabilities in respect of future calls are transferred. Ordinarily, and in the absence of a contract to the contrary, a

purchaser of shares is entitled to all the dividends which may have been declared after the date of the purchase. But until the name of the transferee is entered in the register of members, the dividends on the shares are payable to the transferor for he is deemed to be the holder of the shares until the entry is made. If the transfer books of the company are closed no transfer can be registered and during this period the delivery and payment of shares are postponed.

Splitting of shares :—

It happens in some cases that the denomination of share certificate is for a greater number of shares, while only a few shares are transferred. At the Bombay Stock Exchange such certificate is lodged with the Clearing House who issues split receipts as well as balance receipt. The certificate is then sent to the company to get them split up in the required number. In other cases when there is no Clearing House the transfer deed showing the number of shares transferred and the share certificate are lodged with the company so that the transfer may be marked or certified. The marking consists of an endorsement on the transfer deed by the Secretary of the company that the share certificates to meet the purchase are at the company's office and when this certified transfer is afterwards returned to the company by the buyer, the company issues him a certificate for the shares he has purchased and also issues a fresh certificate to the seller for the quantity he still retains. For this service the company charges a nominal fee termed as split fee.

(b) Blank transfers :—

A blank transfer is a transfer in which the transferor hands over to the transferee the share certificate with a transfer form completely blank but for the signature of the transferor. In this case the transferor signs the transfer form but the name of the transferee is not written thereon. The intention in giving such a transfer is that the purchaser shall be at liberty later on to fill up the blank and complete his security by getting itself registered. The advantage is that the buyer is saved the trouble of signing two forms in case he desires to sell the shares again. Ordinarily both the transferer and the transferee should sign the transfer form and when the transferee wants to sell the shares he should sign another transfer form as a seller or transferor. But in case of a blank transfer the buyer can either fill in his own name on the transfer form or resell the shares by handing over the blank transfer form along with the share certificates to the new purchaser, who can again insert his own name as the transferee or pass on the blank transfer form with the share certificates to another and so on. Thus the same transfer form is instrumental in bringing about several buying and selling transactions till the share certificates and transfer form are received by a purchaser who wishes to retain the shares. The latter can do so by completing the transfer form with his name as a transferee and sending the completed transfer form to the company for registration.

Blank transfers are very common at all the Stock Exchanges of the country. A Blank transfer avoids the payment of stamp duty on every sale, when it changes hands and simply the final buyer who wishes to retain the shares is required to pay it. Besides, it forms a very common method of obtaining a loan on the security of shares. The banker would like the borrower to sign a transfer deed so that in case the loan is not paid, the banker can fill in the necessary particulars of a purchaser to sell the shares as original buyer without any difficulty. It also facilitates Stock Exchange transactions as on every sale it is not necessary to use a fresh transfer deed. But there is one serious drawback that the original seller though he might

have sold the shares long ago, remains liable as a share holder until the sale is registered with the company, particularly so when a blank transfer continues to change hands for a considerably long time. But here also a safety valve has been provided to such a seller by a regulation of the Bombay Stock Exchange which lays down that when the document of transfer are not lodged by a buyer on his behalf or by any subsequent purchaser within twenty one days of the date of delivery, the selling member who up to this time limit is personally responsible ceases to be then responsible for genuiness, regularity and title of the documents. Thus the purchaser or the pledgee by omitting to get himself registered runs a serious risk of previous title prevailing over his own name. But it does not provide a very great protection as at the company's office the original seller remains liable.

The question was raised before the Bombay Stock Exchange Enquiry Committees and several suggestions were made. The Bombay Chamber of Commerce favoured the abolition of blank transfer or desired the limitation of its life. The Atlay Committee in its report suggested the limitation of the life of a blank transfer for two months as it felt that these transfers pass from hand to hand for months or even years and that shares with blank transfer are hawked for sale round the Bazar but it would be two harsh if they are totally abolished.[1] The Morison Committee made very strong remarks on the point. It felt that "the use of blank transfers, by offering the buyer an opportunity of avoiding the Government stamp duty does undoubtedly, by reason of reducing expenses, act as an encouragement towards speculation. The existence of such documents in large numbers makes the records of campanies' registers incomplete, inaccurate and misleading ; besides many persons are put to considerable trouble by reason of the fact that shares are not transferred from their names for many years after they have been sold. Clearly the whole situation is one which is both irregular and undesirable and, if it is at all possible it should be stopped. Against this proposal it is urged that the effect of making blank transfers a bad delivery in Bombay Presidency only, would be to drive business from Bombay to other centres. We have given careful consideration to this point and appreciate that uniformity all over India is a desirable end to have in mind but in view of the evidence we have heard as to the attitude of mind of the local investor as well as taking into consideration our experience of investors generally we do not attach any weight io this particular argument."

"The inevitable consequence of the abolition of blank transfers will be that the payment of stamp duty will have to be enforced on each change of ownership of a security and this in its turn will impose a limitation on the transaction of *budli* business which so long as such business is regarded as a legitimate part of Stock Exchange machinery, would be intolerable. We would consider this as an objection unless Government can see its way to make such concessions as will enable *budli* stock to be taken up on payment of a nominal stamp. It will also be necessary, we think, to make similar concessions in respect of stock pledged with banks by recognised stock brokers."

"We have considered the possible machinery by which this principle could be put up into operation and have come to the conclusion that it does not present any insuperable difficulty. We, therefore, recommend that blank transfers should be made a bad delivery. We make this recommendation regardless of its effect on the revenue of the Government which probably will benefit by its adoption even if a reduced scale were to be fixed. We do so because we are convinced of the healthy effect the abolition of blank transfers will undoubtedly have on stock exchange transactions in general and it is for

1. Atlay Committee Report

that reason that we would like to make it clear that our recommendation is made independently of any action, Government may decide to take as to the amount of the stamy duty."[1]

It cannot be doubted that the abolition of blank transfers would restrict the speculative business and the security will not change hands so easily and quickly as the registration of security takes a considerable time and the buyer having a complete transfer in his hand cannot validly transfer the certificates to another purchaser unless he gets himself registered with the company. Taking all aspects of the matter, it cannot be suggested at the present stage that the blank transfer should be totally abolished, as in India the Stock Exchange business and the investment habit are not widely developed. At the London Stock Exchange, where blank transfers are a bad delivery, considerable business is transacted and no further facilities are necessary for the encouragement of investment habit. But in India there is a great necessity for furthering the investment element in all spheres in the interest of Indian Industrial development and all sorts of facilities are needed.

The existence of the system of blank transfers increases the number of dealings at the Stock Exchange which is thus able to guarantee a continuous market for the purchase and sale of securities and the investors are assured of ready realisability of their money which indirectly fosters the investment habit. The abolition of blank transfer would restrict the market. It is therefore necessary and desirable that the system should be continued and at most its period of currency may be limited to say two or three months.

1. Morison Committee Report.

CHAPTER VI

MARGIN TRADING, SHORT SELLING, OPTIONS AND ARBITRAGING.

Margin Trading :—

Margin Trading may be defined as the purchase of securities with funds borrowed from ***brokers.*** Such a dealing is similar to a purchase with funds borrowed from banks and financial institutions but that does not constitute a margin purchase as there are two significant differences between them. Money borrowed from banks is repaid gradually and the periodic interest must also be paid, while a broker debits the customer with the purchase price of shares and interest and does not press the customer for payment, as long as the value of the collateral remains sufficient to cover the loan. Besides, the relation of a banker to a borrower is less personal than that of a customer to a broker who advises his client on various matters and grants him credit, only when he feels perfectly satisfied about his financial stability.

Margin trading is a by-product of speculation and forward trading. In a cash transaction or a contract for ***Ready delivery*** the necessity of a margin does not arise. It is only when traders deal ***on account*** and wait for appreciation in the value of securities, that they make a purchase on ***margin.*** Income from dividends is no consideration to such traders. Though it is possible to speculate without a margin yet margin trading cannot exist without speculation.

Whenever trading on margin is desired, the client opens an account with the broker and an initial deposit of cash or securities is made. A contract is entered into between the broker and the client by which the customer agrees to maintain the margin at a certain level. The broker is also given the right to sell any or all of the client's securities at his own discretion whenever is deemed necessary for the protection of the broker. When an account is opened, it is maintained on the ordinary principle of debit and credit and is credited with the initial deposit as also with the net proceeds of sales effected on behalf of the client. Purchases are, likewise, debited to the account and the balance indicates the amount owing to or by the customer. Take, for example, a customer X opens an account with a firm of brokers and deposits Rs. 3,000. The amount would be credited to his account. He orders the broker to buy 100 shares at a price of, say Rs. 120. When the order is executed, his account would be debited with Rs. 12,000 and commission Rs. 60. The account will thus show a debit balance of Rs. 9,060, secured by 100 shares of the value of Rs. 12,000. If the market price of these shares rises, the client may order the broker to dispose of his holdings at the best price and if the shares are sold, say at Rs. 140, the customer's account is credited with Rs. 14000, less commission Rs. 70, *i. e.*

with Rs. 13,930. The account would then show a credit balance of Rs. 4,870 as under.

X's Account.

Date		Rs.	Date		Rs.
	To purchase	12,000		By cash	3,000
	,, Commission	60		,, sales	14,000
	,, Commission	70			
	,, Balance c/d	4,870			
		17,000			17,000
				By balance b/d	4,870

After the purchase X's account shows a debit balance of Rs. 9,060, secured by 100 shares of the value of Rs. 12,000. Thus there exists a margin of Rs. 2,940 (12,000—9,060). If the price of the shares comes down to Rs. 90, the total value of the securities would fall to Rs. 9,000 against the debit balance of Rs. 9,060. If this situation happens the broker would require the customer either to decrease the debit balance or deposit additional collateral. A margin thus may be defined as the amount by which the value of securities in an account exceeds the debit balance and this is to be maintained at a particular level according to the custom of the market. Every fall in the value of the shares reduces the margin and additional deposit may be necessary, similarly every appreciation in their value increases the margin which may be withdrawn by the client if it crosses a certain limit.

In fact in a margin purchase, the broker supplies a part of the price and this is affected through the process of borrowing and lending of money and securities. Margin trading brings about two advantages. It protects the broker's investment which becomes more safe and acts as a check on excessive speculatian as every time margin falls additional deposit is necessary and the client cannot make additional purchases without maintaining a margin at a particular level. He cannot thus deal beyond his limits. But this is not always the case as at some occasions the additional purchase by raising the price of the security may create its own margin. In our example the price of security held on margin is Rs. 120 and the total collateral value is Rs. 12,000 against a debit balance of Rs. 9,060. It means that the shares are held at a margin of 24·5 per cent. If the client now wants to purchase 50 more shares, the price of the security would rise, say to Rs. 150. The collateral value of all the shares held as a margin thus would be $150 \times 150 =$ Rs. 22,500, and the aggregate debit balance would be Rs. 16,597 (9,060+7,500+37, Commission) and the margin would increase from 24.5 to 26.2%. The margin would further increase to 31.5% if he purchases only 25 additional shares at a price of Rs. 150. Thus the speculator is at times enabled to take advantage of a better ***margin*** by, further purchases, and this tendency might accentuate speculation rather than bring about a reduction in its volume. But it is only when a lesser amount of additional shares are purchased at a comparativety higher

price that such a situation arises. For example if our speculator purchases 100 additional shares at a price of Rs. 150, the margin instead of increasing would be reduced to 19.5% (Total value of collateral now would be 200×150=30,000. Total debit balance would increase Rs. 24,135 (9,060+15,000+75, Commission) and the margin would be 5,865 or 19.5%).

Thus it is only in exceptional circumstances that the speculator is enabled to increase the margin by additional purchases and the benefit of margin in checking excessive speculation is impaired. Besides the moral force attached to margin trading and the constant fear of additional margin being required restrict the speculator to trade beyond his means. In brief though ***margin trading*** belongs to the realm of speculation it serves certain economic functions in conjunction with legitimate speculation. It creates a stable and continuous market and enable the speculator to discount accurately the future conditions.

Margin Trading and our Exchanges :—

The Bombay Stock Exchange, the only market permitting forward trading to a great extent, does not provide for any system of margins. Brokers in there own interest may demand some amount of preliminary deposit from new customers, but in practice they are not required to maintain this deposit in proportion to the debit balance of their account. Officially at the Bombay Stock Exchange, no system of margin trading is recognised, though from time to time various schemes of margins have been suggested as a preventive to corners and crisis, as the Exchange has witnessed in the past a number of such corners and crisis. Morison Committee, for example, was in favour of a simple system of margins as in its opinion a complicated system would either be evaded or be ineffective. The Committee simply indicated the directions for a system of margins with a view to impose a check on the initial transactions and discourage its prolongation beyond the due date of the orginal settlement. The indications of the Committee referred to (a) a percentage margin on the initial buying price (bargain price), (b) an additional percentage margin on the making-up price at the first settlement if the security is carried over and (c) further additional percentages as supplementary margins at each of the following settlements.

Mr. A. D. Shroff in his evidence before the Morison Committee suggested a system of margins under which every broker was required to submit every day a list of the transaction at the over-night closing time in order to prove thaf he had the requisite margin from his clients. He wanted the Government to take power under the Bombay Securities Contracts Control Act, 1925 to permit forward dealings only under prescribed margin requirements with power to vary the margin from time to time in consultation with the Stock Exchange Authorities. A mere inital margin was not enough, it must be maintained at the required level as the transactions increase, with a slight concession in respect of time to up-country clients and the same restrictions to apply to brokers or firms who deal in their own accounts.

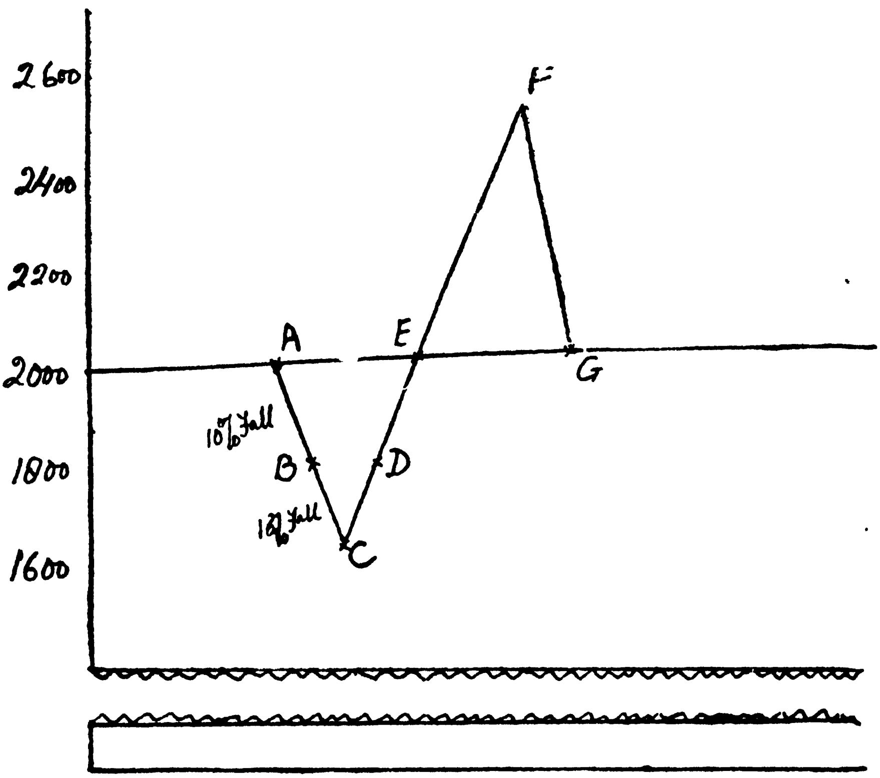
Recently a scheme of margin has been drafted by Mr. K. R. P. Shroff, President, Bombay Stock Exchange. The scheme provides for a 10% margin to be demanded when there is a fall of 10% or more and no margin is to be called when there is a cuntinuous rise in prices. The broker under the scheme has the option to demand an initial and additionl margin if he so desires. But the client is not obliged to put up the margin. It is a matter of agreement between the two. But in actual practice if initial or additional margin is required by the brokor, the client would always submit it, but for fear of losing the client the broker will not do so except in exceptional circumstances. The scheme suggested by Mr. Shroff is embodied in a new set of rules from 358 to 369 and provides as under :—

360 (b) Margin price shall be fixed for any security whenever (*i*) there is a decline on the day of fixation or any other day previous thereto in the market price to the extent of 10% from the official ***budli*** price or from the last margin price fixed for the current settlement for the security.

(*ii*) There is a rise to the extent of 10% above the last margin price fixed for current settlement.

(*iii*) The market price recedes to the official ***budli*** price after a rise of 10% from the said price.

Let us take an illustration to understand the scheme. It is known to all that each new settlement starts mostly with a carry over or ***Budli*** business. The Board has the power under rule 358, to fix a maximum price for each security for budli bussiness, The fixation of budli price is only essential for the purpose of determining margin price. Let us assume that ***budli*** price for Tata Deferreds is Rs. 2,000 *i. e.*, 'A' in the following diagram. If the rate falls by 10%



from 2,000 to 1,800 *i. e.*, 'B' a 10% margin will be called according to clause (*i*) of the above rule. If the market further falls by 10% *i. e.*, from Rs. 1,800 to Rs. 1,620 *i. e.*, 'C' another margin of 10% will be demanded and so forth for every decline of 10% from the previous margin price.

If after reaching Rs. 1,620 *i. e.*, 'C' the market takes a turn and reaches Rs. 1,800 (*i. e.*, 10% from C) *i. e.*, 'D' there will be again a marginal settlement according to clause 2 of the rule. Similarly when the rate reaches Rs. 2,000 *i. e.*, 'E' again there will be another settlement under the same sub-clause.

But if on the contrary there is a rise in price *i. e.*, 10% rise from Rs. 2,000 upward there will be no marginal settlement. The rate may go to Rs. 2,500 or Rs. 3,000 there will be no marginal settlement at all. But when the rate falls back to the previous level in this case Rs. 2,000 *i. e.*, 'G' preparation will have to be made for a fresh settlement. This is clause 3 of rule 360 (b).[1]

The scheme was submitted for the approval of the Government but has been kept aside on the ground that at present there is no forward business.

The above scheme is one-sided only and is said to be 'Mandi Scheme' as no margin is necessary in case the price rises beyond the *budli* price. It will thus encourage short-selling. But at the same time it does not seem at all necessary that a margin settlement should take place, whenever the prices rise beyond the *budli* price, as any rise in price will automatically push up the margin. But at the same time in any scheme of margin it shonld be privided that the margin should not be allowed to fall below a certain percentage by any rise or fall in price and should be maintained at a fixed level. Then only speculators would be prevented from dealings beyond their limits and real purpose of margin requirement shall be fulfilled. Thus a modest begining may be made in this direction by providing for an initial deposit as also for the maintenance of the margin at a fixed percentage. Though a scheme of margin cannot abolish speculation totally, but what is needed is to restrict its magnitude so that dealers may be prevented from speculating beyond their means. A system of margins undoubtedly discourages over-trading and exessive speculation and provides a protection to the brokers from the possible weakness of the client and guards them against their poor finances.

The system of margin should make no exception and should be provided by members as well as non-members. To exempt a member doing business on his own account from complying with margin requirements would nullify any benefits that might accrue from the adoption of a system of margins. The utmost concession that might be made to members, may be in the form of slightly reduced percentage in view of his holding a seat valued at about Rs. 40,000. A concesssion in the matter of time within which margin is to be oompleted should also be made to clients living at a distant place. All the margins should be kept by the Exchange or some other authority nominated by it, and the Stock Exchange Clearing House is the best authority.

(B). Short Selling :—

Short-selling has been described as the process of selling a security which one does not possess, in the hope of a fall in price, when the sale shall be covered by making a purchase. It is naturally a credit transaction and inherently speculative, as the seller sells a scurity which he does not yet own in the hope that the price of the security will subsequently decline and he may be able to purchase for delivery at a lower price than that received from the person to whom he originally sold it and would net the difference. It can thus be favourably compared with margin buying. In the latter case the purchaser hopes to gain through rising prices while in the former, the short-seller hopes to gain through falling prices. They are thus both counter part of a market, and necessary adjuncts to speculation. Short-selling is sometimes dangerous as execessive short-selling may sometimes lead to a corner. 'A corner arises when more shares than are available for delivery on the day

1 Journal of India Merchants Chamber, November 1941, K V Barodia the Samayivalan.

of settlement have been sold and the buyer holds the sellers to ransom.[1] What really happens when a cornor occurs is that an individual or syndicate succeeds in obtaining possession of all the shares of a certain issue and at the same time they enter into contracts with others *viz.* the short-sellers, to buy shares of the same issue ; when the time comes for delivery the short sellers are unable to deliver the shares (as the shares are held by the individual or the syndicate) with the result that they have to buy the shares from the very individual or syndicate at a price dictated by them. "A partial corner in a security may occur when a single individual or group of individuals gain possession of either a large majority or all of its floating supply. A complete corner arises from such an ownership of all or almost all of its outstanding amount of a given issue."[2]

Really speaking it is the controlling of shares with the sole object of inflating their prices that can be called a corner. If an individual or syndicate were to secretely buy up almost all the shares of a concern and others being ignorant of such secrecy were to continue to sell them under the belief of covering their sales in the market at the market rate, and they eventually find that they have to purchase them from the very person to whom they have sold at the rates dictated by him then that state of things would be a corner.[3] The usual procedure followed in a corner is the accumulation of floating supply of stock and stimulation of a large short interest. When such a situation develops any one short of the security is at the mercy of the cornering syndicate which can charge as exorbitant a price as it likes.

Short-selling has usually been condemned and it is a few only who sympathise with the short-seller because of the belief that it is wrong to sell that which one does not possess, that no economic good is performed by this practice and that short-selling artificially depresses security prices. Short-seller is regarded as a nuisance and a menace as he is supposed to injure the interest of legitimate investment deliberately. Short-selling involves the sale of something which may not in fact be in existence and the total sales may far exceed the total available stock. It has a tendency to depress prices artificially and particularly so when substantial declines have already occurred. Above all it facilitates the creation of corners which may in turn lead to stock exchange crisis, as the evil effect of a corner does not remain restricted to a particular scrip but spreads to other scrips as well, as the short-sellers in order to pay high prices of the shares which they have to purchase to fulfil their obligations, are forced to sell other shares in their possession and such a forced sales result in the falling of the prices of these shares. This leads to a panic and subsequent crisis.

But at the same time it must be remembered that short-selling is an important part of speculation and a common practice in many leading kinds of businesses. It cannot be criticized on the ethical or moral grounds. It is simply a question of psychology that people wish to buy first then sell because their mind is not adapted to selling first and buying next. In both cases the object is the same, to make a profit. Buying implies achieving an object, then parting with it, selling implies parting and then achieving with a view to fulfil the contract. They are two hands of one phenomenon, two sisters in a family. There is nothing immoral in it. "If it is immoral to sell for a purpose it is equally immoral to buy for a purpose, in each case the purpose is the hope of profit. Buying for a profit is approved by every one, why not selling ? In both you have bought or sold for a difference in price. The

1 Atlay Committee Report 192[illegible]

2 Meeker. The work of the Stock Excange,

3 K. R. P. Shroff - Corner in shares Bazar.

sequence of events in no way involves a question of morals, since there is no ethical difference and no economic difference between buying first and selling last, and selling first and buying last. Moreover in selling short you do no injury, since you sell to a buyer at his price only what he wants and is willing to pay for."[1] On the other hand it produces certain economic advantages. It widens the continuous character of the maket and imparts the necessary feature of liquidity to securities. Investors are assured of a ready market through the existence of these short sellers. Short-sellers increase the number of securities. Its existence is also necessary for odd-lot dealers who are always willing to purchase or sell securities in any odd amount because they are assured of a ready market. If the odd-lot dealers were prevented from becoming short of a stock just as readily as they can accumulate and become long of it, the odd-lot machinery would be thrown out of balance and the service rendered by them would not be available to a host of small investors. It is also an essential part of arbitraging, which means purchasing in a cheap market and selling in a dear market. In fact an arbitrageur sells first and buys afterwards and thus sells short and covers his short sale in another market.

The most important benefit of short selling consists in checking undue inflation of prices. It provides two sided market and thus gives greater assurance that price will accurately reflect present and future business conditions. When security prices are soaring, short sellers by their sales create supply which tends to depreciate prices. On the other hand when prices are falling unduly, no fresh buyers are likely to enter the market to absorb the supply, it is then that the short-sellers are said to enter the market in order to cover their short sales. In this way their purchases create a demand which absorb the supply and further fall in price is checked. The existence of jobbers in London, of odd-lot dealers and specialists in New York and *tarawaniwalas* in Bombay would not have been possible but for short-selling.

Short-selling is thus a necessary requisite for forward dealings and to disallow the members to sell short is to suspend forward trading. But at times it might become necessary to suspend short selling for limited period to protect the general interest of the members and the public. As noted above corners are brought about by "Bears" due to their activities of short-selling and at that time what is more needed is to arrest bear raids and a rule of the Bombay Stock Exchange has made a provision to this effect. "In a crisis or emergency or when it is obvious to the Board that a crisis is at hand or that a fair or normal maket may not exist and the Board is satisfied that a temporary suspension of short-selling is in public interest, the Board shall prohibit short-selling in any security, provided that such suspension shall be effective for 24 hours only and that for any longer period shall be effective with the previous consent of the Government."[2] But this does not provide a real remedy to corners and the remedy can be found in checking speculation. It is only legitimate speculation that should be fostered and the speculation which differ little from gambling should be rooted out. As a cure to corners the Atlay committee was of the opinion that the short-sellers should be left to pay the penalty in the absence of any fraud and that the practice and policy of the Bombay Stock Exchange should be the same as that of London Stock Exchange, namely that ' all contracts entered into for the sale or purchase of shares must be fulfilled by the delivery of shares or by payment of the purchase price. And if he, who has sold shares cannot on the day of settlement deliver the shares which he has sold he must submit to the ordinary

1. Van Antwerp—Stock Exchange from within.
2. Regulation 222, Native Share and Stock Brokers' Association.

procedure of the Exchange whereby the shares are bought-in against him in the open market, unless he can prove to the complete satisfaction of the Committee that he has been the victim of fraud." While the Morison Stock Exchange Enquiry Committee wanted to afford the necessary protection to the sellers and thus favoured the view that Board should be permitted to suspend buying-in rule so that the buyer may not utilize the machinery of the Stock Exchange to drive prices to an altogether unwarranted height. The new rules therefore of the Bombay Stock Exchange make a provision to this effect. In the first instance the Board of Exchange is empowered to suspend the buying-in rule. This is to protect the short sellers in the event of a corner in a particular scrip. Board is prohibited from fixing prices for the dealings in securities. It is allowed to intervene under the rules only when it is in public interest and prohibit further dealings in a scrip when they are satisfied that a single person or a syndicate has acquired control over the scrip and as a result of which the scrip cannot be obtained for delivery on existing contracts except at prices arbitrarily dictated by the person or syndicate.

(C) Options :—

Option dealings or ***Teji-mandi*** operations form an intricate and technical method of speculation. Before the war option dealings except in Bank shares were permitted at the London Stock Exchange. The New York Stock Exchanges and the Indian Stock Exchanges provide no such facilities for dealing in options. Option is a method of limiting one's loss upto a particular amount and may be defined as the right to sell or buy, as the case may be, a certain amount of security at a certain price within a stipulated time. It differs from an outright purchase or sale to be settled at a particular date as it gives the holder of the option a right to decline to buy or to sell. An option to buy is called a ***call option*** or a ***Teji Soda*** and an option to sell ***put option*** or a ***Mandi Soda*** while the ***put and call*** is the double option acquiring the right to either purchase or sell as may be desirable. The purchaser of the option to whom option right is granted is required to pay a premium known as option money to the grantor. A ***call option*** is generally bought by speculators who think that the prices will advance, but who are yet desirous of limiting their possible loss to a fixed amount, and may be defined as a contract "negotiable in form, giving the purchaser or the holder the privilege of purchasing from the maker for a specified length of time a given number of shares of a certain stock at a price fixed by the contract."[1] Similarly a ***Put option*** which is just the reverse of a ***Call option*** may be defined as the privilege to put or sell certain number of shares within a a specified time at a given price. Such an option is purchased by those, who think prices will fall and wish to limit their liablilty in case the market goes wrong. Under ***Put of more*** option a fixed amount of stock or a certain amount of shares are agreed to be sold with the right of ***Putting*** or delivering a further like amount at the same (or some times at a different) price. A ***Call of more*** is just the reverse and implies the option to purchase a fixed amount with the right of ***calling*** or buying a further like amount.

Option dealings are entered into by those speculators who do not want to risk their capital but at the same time want to take advantage of variations in price. For example an operator finds certain shares quoted, at say Rs. 25 and considers that they will rise within next month, he may buy a call option on say 100 shares for the next settlement and would pay a certain amount of money as ***option money***. The buyer of the option in this case has the right to buy 100 shares on the settlement day or cancel the contract and lose the

1. Dice—Stock Market.

option money. Being probably a speculator, he has no intention of actually paying and taking up the shares but if the price on the settlement day shows a rise of more than the option money paid, after allowing for broker's commission and other expenses he would exercise the option and would sell the shares again at a profit. If on the other hand the rise is insufficient to give him a profit he does not exercise his option and his loss would be limited to the amount paid as *Option money* plus expenses. Even if the price of the share has not risen to the extent of the option money plus expenses, he may be able to reduce his loss by exercising his option and selling the shares.

On the other hand the buyer of a *Put option* having the right to sell securities *at* a certain price would benefit only if the price of the securities falls sufficiently so as to exceed the cost of the option. Then only the operator would exercise the option to sell the securities at the option price and would buy them back for the same settlement at the lower price.

Put and Call option is a combination of a *Call option* and a *Put option.* The buyer of such an option is granted a right either to sell or to buy the specified security at the agreed time. Such an operator is neither in favour of a rise nor in favour of a fall but deals on the expectation of a movement in price. For such right the buyer is required to pay double the premium that may be required to be paid in case of a single option. Take for example, a customer X wants *Put and Call option* on 10 shares of X. Y. Z. & Co. Ltd. at a price of say £1000 per share paying an option premium of £2, per share, when the premium for a single option is £1 per share. If on the settlement day the price neither rises nor falls the buyer would lose the whole of the option money viz. £2 per share, or £20 in total. In order to enable him to make a profit the price of these securities must rise or fall to a limit which is over £2 per share. The *Put and Call* transactions are thus entered into only in connection with securities which are subject to violent fluctuations in prices.

An operator who buys such an option is in a position to reap an advantage whichever way the market price may move and at the same time his loss would be limited to the amount which he has agreed to pay at the time of the option and unless the prices of the security agreed to be purchased or sold at the end of the agreed period is exactly the same as it was at the time the double option was bought it is impossible to lose the whole of the option money.

It is evident from the nature of option dealings that they provide facilities to a man with only a moderate amount of money to gamble with limited liability for loss but requires a great amount of caution and "a small moneyed man who merely wishes to make a profit of some magnitude without risking much is advised to keep away from the option market. It is quite obvious that those who grant option are not philanthropists and will regulate their business in accordance with their own risk. Genuine option dealing is a matter for the specialist financier who conducts it for a definite purpose as part of his general strategy or tactics. Spurious option business, as conducted by some bucket shops, is nothing but a form of confidence trick."[1]

At the London Stock Exchange option prices are quoted in similar terms to ordinary jobbing prices but their dealings are not restricted to jobbers only. In fact the largest dealers in options also act as brokers. They are purchased through the usual stock brokers in the same manner as any security transactions. The longest period allowed is three months which is usually referred to as the full period.

1. W. Collin Brooks—How the Stock Market really works.

The price charged for an option is largely dependent upon the marketability and the nature of the security and also on the current conditions which affect the particular stock. It is thus quite obvious that an option in a security which seldom moves would be much cheaper than on one which fluctuates violently. Option dealings are transacted in an ordinary way and at the outset when an option is granted, a contract note is rendered setting forth all particulars and also giving out the commission charged. The contract note simply mentions the consideration for the option and not the value of securities. At the expiration of the period if the option is exercised and it is desired to *Call* or *Put* the security a further contract note is rendered which indicates the value of security and shows that the security has in fact been sold or purchased. No extra commission is to be paid at the time the second contract note is prepared and no extra expenditure is to be incurred. The cost of stamp duty may be spread over these two contract notes. Besides, the operator can *close* the transaction without any extra commission, that is, if he has an option to call having called the security he can sell it for the same account, and so also having put in case of *put option* he can purchase it without the payment of any extra commission. All option dealings carry with them the rights of all dividends, bonuses and privileges. If a bonus or dividend is declared during the life of an option a *giver*[1] who called his security would call it cum-everything. If he abandons his call, he of course is not entitled to such bonus or dividend.

(D) Arbitraging : -

The practice of arbitraging has its origin in the fact that the price of a particular security or commodity may be lower in one market and higher at the other at a particular time and thus it may be profitable to buy at a cheaper market and sell at the dearer market. This practice of buying and selling a subject matter or two subject matters closely and inherently related to one another as regards price simultaneously in the same or different markets with a view to make a profit due to differences in two prices is termed as "arbitraging" which may be defined as "A specialized form of trading which is based upon disparity in quoted prices of the same or equivalent commodities, securities or bills of Exchange."[2] If the two markets where arbitraging is practiced are within the same country, the transaction may be termed as *Domestic Arbitrage* to distinguish it from *foreign arbitrage*, when the two markets are located in two different countries. Thus arbitraging is made possible due to disparity in prices and this disparity may relate either to time, place or kind of security. *Time* arbitraging results when it becomes possible to make profit through the purchase and sale of securities in the same or different markets when spot price varies from the present price of a future delivery of the commodity. *Place* arbitraging occurs when the same security owing to differences in supply and demand sells at different prices at two different markets. *Kind* arbitraging exists where the article or security in the purchase and sale are different in their characteristic but are related to one another. In a *foreign arbitrage* rate of foreign exchange plays an important part. Unless the currencies in which the two transactions take place are readily convertible, arbitrage may result in a serious loss. Besides, the cost of communications must be more than covered from the profits.

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1. "Giver" is the buyer of an option who 'gives" or pays money for an option. Conversely a "Taker" is the seller of an option who takes or receives money for an option.

2 Twentieth Century Fund Inc—Security Market

Arbitrage operations serve certain useful economic functions. They tend to bring about all the benefits of a continuous market by increasing its continuous character and thus provide for ready marketability to securities. Secondly they tend to bring out levelling of prices in various markets. Buying in a low market will tend to raise the price in that market while selling in the other at the same time will tend to lower the price in that market. The result is that any difference in price of a given security will soon be extinguished and prices would tend to come to the same level. With the incrase in arbitrage operations, Stock Exchanges cross national boundaries and become international in scope.

CHAPTER VII

FLUCTUATIONS IN SECURITY PRICES.

No simple direct answer can be given to the question, "what causes fluctuations in prices ?" Price movements are not brought about by any single factor but many factors contribute to the upward and downward changes. "The winds that play upon Stock Exchange Markets are as varying and inconstant as those that blow upon the ocean. They are frequently just as disturbing. By markets we mean the level of prices at any one time in existence. These price levels are extremely sensitive and susceptible to all kinds of influences."[1] No doubt a large number of factors tend to bring about changes in the values of shares but the main factor that brings about short term oscillations is the change in demand and supply. At times when demand for a security rises or falls, the price of that security also varies. In short, prices of stocks and shares, like everything else sold in the open market, are regulated by the laws of supply and demand. An increase in demand or decrease in supply would always tend to raise the price, while an increase in supply or a decrease in demand invariably conduces to lower a price. It is brought about by the fact that if at any particular time or day demand is greater than supply, the dealers would run short of stock and would begin demanding a higher price. On the other hand if at a particular time there are more orders to sell rather than to buy, price would go down. But the supply of shares of a particular industry cannot be increased with a change in price, though the stock available in the market at a particular time may vary a little. Joint Stock Companies have fixed capitals which cannot be easily reduced or increased due to very strict provisions of the Indian Companies Act by which public companies are governed in India. In case of other tangible commodities "Supply" also affects the price as in the long run the production can be increased. In case of securities, on the other hand, supply is fixed in the sense that the number of shares of a company cannot be increased, though the stock offered for sale in the market may vary from time to time and to that extent 'supply' also plays its part in the determination of values of securities.

The security market has a further feature of its own which has a tendency to affect share values considerably. Security values to a very great extent depend on the 'technical position of the market.' At a particular moment when prices are stable and there happens to be a speculative interest in particular shares, the price will start rising unless it is counteracted by other powerful factors. When the market has a tendency to rise, many a bull operators would come forward and make purchases in the hope of further rise and a number of purchases would be made beyond the capacities of the purchasers. A slight decline in price will force these persons to sell their shares in order to limit their loss to an amount that they will be able to pay. These sales will bring about a further depression in prices and when this situation happens the market is said to be techincally weak.

It also happens that whenever prices have risen to peak levels and the market is not very strong, on any slight unfavourable news, the market falls to a bottom as happened in case of Tata Deferreds which after opening firm and improving to Rs. 2,192-8 (Third week of September, 1941), experienced

1 Armstrong—A Book of the Stock Exchange

heavy bull liquidation, which in the absence of support resulted in the rate dropping by about 200 points, (Last week of September, 1941). Though it is said that it was due to war news from Russian Front, yet it could not be possible but for the rapid rise in its value about a week ago. Thus the technical position of the market disturbs the market in its own way.

Broadly speaking there are three kinds of persons dealing on a stock and share market, the *insider*, having a working knowledge of the company, the *traders* and the *general public*. Changes in fundamental business conditions find a reflection in the market through the action of the insiders in altering their market positions. The insiders, having a working knowledge about the affairs of the company bring about a change in the market by their action as all the matters are known to them much in advance than they are available to the traders or the public. When insiders begin to sell in the first instance, it causes an alarm to the traders and they also try to alter their positions, the public in turn is guided by the actions of the traders and begin to unload their holdings. "When a turning point in industry approaches the businessmen (here used as insiders) sound the warning by changing their market positions. The traders recognize the danger signals, not by examining industrial conditions, for the necessary information cannot be complied promptly enough, but through the observations of the behaviour of the market as it reflects the activities of the insider. Finally the public is faced with and forced to accept the accomplished fact of business revival or recession." [1]

Let us now examine the factors which bring about a rise or fall in demand which in turn brings about movements in share values.

(A). Public Opinion and Sentiment :—

Price movements mainly depend on 'public opinion' *i. e.*, what people think about a particular share. At one time one scrip is favoured while at another time the other. There often arises a sudden and increasing demand for a security which on account of previous ill-favour or lowness of price has been neglected and this would raise the price in proportion to demand created.[2] Sentiment has an all pervading influence on the price movement. It is highly infectious. When it is dull day in the Stock Exchange and the tendency is downwards, buyers become panicky and refrain from buying, otherwise it is beyond one's comprehension as to what has become with the company overnight. As a result of this downward tendency more sellers than buyers are noticed and this state of affairs further brings down the prices and a new low level of prices is created. Covering at this stage raises the market. Before the market takes a turn for the better, a transition period appears and wise investors with liquid money available with them come in to buy shares, and without any rhyme or reason the sentiment is changed for the better and prices begin to move up. Sellers are now no longer anxious to sell off their holdings and buyers find it difficult to complete their needs at the price prevailing a day or sometimes a few hours before. This makes them more eager to buy and prices still go further making the market firmer and more optimistic.

It is not easy to explain the causes of these sudden changes. There are many factors which go to form the unifying cause which affects the sentiment of the market and brings about sudden changes in price levels.

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1 Twentieth Century Inc Fund—Security Market.

2. As at the Bombay Stock Exchange during the first decade or two of this century Maneckji Petit was the leader ; originally of Rs 1,000 , it at once rose to Rs 4, 00 Tata Steels were mere infants then. But gradually the great popularity of Manekji began to be challanged by the Currim Bhoy group and the Nagpur, Swadeshi and Dyeing Mills, until after the war Manekji was entirely forgotten as the leader Gradually Currim Bhoy group disappeared after 1933 and Dyeing took its place (Nabar Successful Speculation)

(B) Monetary Factors :—

(i) Money and Security Markets :—

Money market constitutes the most important of all factors affecting prices. There exists a very close connection between the Stock and Money markets as in actual practice a large volume of call loans are obtained on the strength of stock and bond collateral and such loans are mainly used by the stock brokers for the financing of their operations. If there happens to be stringency in the money market, the short-term loans shall be called out as they are secured by the hypothecation of stocks and shares which enjoy the benefit of continuous market and can be converted into cash immediately. In case these loans are not paid out the collaterals are to be sold in the market and such sales would bring about wide declines in the price of such shares and securities. Thus in case of monetary stringency the security market is made to bear the brunt of the situation. The intimate relationship between the two market is also created by the fact that in case of margin dealings where the buyer of a security does not deposit with the broker the full purchase price, the broker finances the transaction by means of loans from the banks or other brokers using the purchased stocks as collateral. Thus the two markets are very closely inter-related and the transactions originating in one market are often completed in the other. As a consequence both act and interact upon each other and neither can operate without influencing the other. Banking policy affects the security markets while fluctuations in the price of the securities traded in on the security market affects the value of the collateral held by banks against loans.

(ii) Interest Rate and Security Prices :

Value of the money by which is meant the rate of interest at which money can be borrowed exercises a potent factor in bringing about changes in share values. A decline in short term interest rate tends to increase the speculators activity as the speculators are anxious to take advantage of the lower rate of interest and borrow money to invest in securites yielding a better return. A study of shortterm loan rate[1] would indicate that at times when the rate has fallen down, an added impetus has been noticed in case of security dealings which in turn has led to a rise in the values of certain shares. When money is cheap and plentiful, securities and shares receive its support and rise in price, and when it is dear and scarce they fall in price and it is not possible to omit the influence exercised by the money market on the prices of a share.

But it must not be understood that changes in call money rate can solely bring about corresponding changes in share values. The effect of a decline or a rise in call rate may be counteracted or strengthened by other causes affecting the market in general or the industry in particular. Mr. Dice has also observed that money conditions are not a dominant factor in affecting security values. Cheap money may lend added strength to a bull market, dear money may add weight to heavy market, but high interest rates cannot stop a bull market, unless other conditions are unsound and cheap money cannot start a recovery unless fundamentals are favourable. In either case the effect is secondary, supplementary in nature.[2]

1. Vide Appendix XXIII
2. C. A Dice—Stock Market,

In addition to this interdependence of the markets, share values of one group of industries change in sympathy with the other group. Any change usually in the 'Leader' of the market tends to bring about a corresponding change in other shares. In the year 1936, and 1937. following the rearmament programme prices of Steel shares all through advanced to considerable levels. This rise in Steel shares brought about a sympathetic rise in the values of Textiles and Bombay Dyeing touched the thousand rupee mark, while Centuries gained 35 points to Rs. 230 and Central India gained 40 points to Rs. 300. A similar sympathetic advance was noticed in the values of Hydro-electrics, Tata Powers improving to Rs. 1,495 and Andhra Valleys to Rs. 1,552-8-0 and Bombay Burmah to Rs. 408-2-0, on a consequent rise in the values of Tata Deferreds and Ordinaries on the announcement of a Dividend in the year 1936. At present in the Textile group in the Bombay market, Bombay Dyeing is supppsed to be the Leader and as such any change in its value brings about a corresponding change in other Textile shares. "Thus it cannot be denied that sympathy of markets often has very startling and ludicrous results and that the explanations sometimes given of market movements are such as to lead one to the conclusion that there is no rhyme or reason at the back of them."

(ii) Trade Cycle :—

In a period of depression, the tendency to dullness prevails in all spheres of the market and there is an all round severe curtailment of production. The declining commodity prices lead to heavy losses to the merchants in general, as a consequence the industry receives a set back ; employees do not find work to do and their incomes are thus reduced. The reduction in the incomes of the people leads to a fall in the purchasing power which excellerates the fall in demand and brings about a further curtailment of profits. There is a general pessimistic outlook and practically no investments are made in new enterprises. This pessimistic outlook over the industry in general brings about a general fall in the prices of securities as many who are not financially strong are forced to sell securities because of losses in their regular business.

The effect of the depression may not affect all industries equally and particular industries might be affected to a greater extent, while others to a very little extent as it all depends on the extent of the fall brought about in prices of commodities manufactured by them. If the price of a commodity falls, the value of the shares of that industry also tends to fall as it is expected that a fall in the price of its manufactured articles is likely to injure the profits. Similarly a rise in the price of a commodity brings about a corresponding rise in the price of securities.[1] If the price of an article is controlled as happens in times of war, it ultimately reflects on the Stock Exchange price movements. Pegging of prices tend to curb the element of profits and lessens the likelihood of capital appreciation. The experience of the depression in 1931 indicates that the all round fall in prices was instrumental in bringing about a corresponding decline in share values. There was an all-round decline of trade which reflected in a plethora of unusable money. In the year 1931 the price of cotton which stood at Rs. 54 per candy at the begining of the year declined to Rs. 40 during October. Broach Cotton which was quoted at Rs. 193 in Junuary dropped to Rs. 139 in October. This led to a decline in the value of shares. "Thus the world economic depression with falling commodity prices adversely affected quotations. The invest ment demand was conspicuous by its absence and trading was largely confined to inter-bazar operations. The fluctuations in cotton mill shares were in addition subject to changes in the price of raw cotton and the off-take of

1 Vide Appendix XXV

mill cloth.[1] Bombay Dyeings declined steadily from 726-4-0 at the end of March to 671-4-0 at the close of May. Centuries fell from Rs. 262-8-0 to Rs. 218-12-0; while Fazalbhoy lost from Rs. 415 to Rs. 366-4-0. The miscellaneous section moved in sympathy throughout, Tata Iron Ordinaries, receding from the level of Rs. 25-4-0 to Rs. 19-12-0 and Deferreds from Rs. 283-12-0 to Rs. 265. Further when the price of raw cotton advanced in the month of June, a sympathetic influence was noticed and the prices of shares also advanced.[2]

On the other hand it is an axiom that during a boom, prices of almost all equities tend to move up, a fact which has been fully demonstrated by the course of share prices during the past five years of war. The experience of the present war indicates that a rise in the prices tends to coincide with a period of business prosperity and leads to a rise in industrial profits, which as a consequence brings about a rise in share values. At the same time an increase in the price of commodities used as raw materials would tend to bring a fall in share values, unless it happens to coincide with a rise in the price of finished product. In a period of rising prices, the cost of labour and also the cost of equipment and maintenance increases and with it the possibility of higher profits is lessend; and this factor might temporarily bring about a set back in share values. Traders on the security market keep a constant watch on the commodity market and their own market attitude is determined to a certain extent by the changes in the commodity prices. Increase in demand of any article causes a sharp rise in the shares of industrial companies as the increased demand is likely to effect the earnings of the industry, as happened in the months of September and October 1937. In those days there existed a very good demand from all centres for locally manufactured cloth and despite double shifts worked by most mills, it became difficult to cope with the demand, Bombay dyeing as a consequence touched the record price of 1175, a rise of nearly Rs. 200 in less than a month, Centuries firmed up to Rs. 328-12-0, Central India to Rs. 365 and Kohinoors to Rs. 400. Steel shares also advanced following the trend in the textile mill section. Tata Deferreds accordingly advanced to Rs. 785 and ordinaries to Rs. 374. On the same score the prices of jute shares advanced in the month of September, 1941 (Anglo-India gaining Rs. 81, Bally beginning at Rs 247 advanced to Rs. 255). It was due to an agreement entered into between the Government and Jute Mills Association for the supply of sand bags and this factor imparted a bullish fervour to the Jute Section and brought about a rise in their values.

On the other hand Government War time Control of prices might bring about a slump in commodity prices and this in turn might affect share values adversely. But the fall thus brought about would be only temporary as any control measure cannot help to eliminate the manufacturers profits' and the ultimate effect might be a rise in industrial shares. In the third week of August, 1941 slump in cloth prices in anticipation of Government Control was mainly responsible for a short decline in the values of textile shares, inspite of the fact that there were favourable news with regard to industries which continued to show encouraging results. But this decline in share values could not be maintained and ultimately share values advanced on the revival of confidence. An illustration to this effect can be found in a fall in share values on the

I Prem Chand Roy Chand & Sons Anuual Market Review, 1981

2, **Extent of Rise.**

Bombay Dyeing	657-8-0	to	692-8-0
Century	222-8-0	to	241-4-0
Fazulbhoy	342-8-0	to	370-0-0
Tata Iron Ord	17-2-0	to	28-0-0

announcement of Textile Control Order. But when the first shock of the Textile Control Order has been observed and fixation of ex-mill prices has been announced, it was considered that the stipulated ex-mill prices in relation to costs would leave a good margin to the manufacturers and the textile shares registered sharp advance.[1]

Thus it is quite evident that share values are also affected by a change in commodity prices.

(iii) Bullion Prices :—

It is not only the commodity prices that affect share values, but they are also guided by the movement in Bullion prices. As a general rule share values move in harmony with bullion prices. But at times when bullion prices rise due to panicky conditions as happened in December, 1942, when air-raids over Calcutta brought about immense rise in bullion prices share prices showed a declining tendency as the confidence of the investors was shakened and there was an enormous demand both for gold and silver. Any reverses of Allies in the theatres of war bring about a rise in bullion prices and a fall in security prices. But a fall in the bullion prices due to a rise in their demand has a similar efiect on the share values as can be noted by the recent price tendenoies.[1]

(iv) War and Politics :—

War is a mighty upheaval that brings about changes in all spheres of business activity. Share market is not free from its consequences. Government influences in all countries is so pervasive and dominant that purely political estimates threaten to determine the course of markets to the subordination of every other factor. Values all round change to a very great extent when fear, baseless or otherwise, grips the market and politics displaces business at the steering wheel. The fact has been well illustrated by the experience of the present war when share values have fluctuated from time to time. So much so that a slight disturbance in the political field would bring about a change in share values, for example the news that a solitary enemy plane was sighted near Madras (sometimes in the third week of November, 1943) was enough to depress Tata Ordinaries and Deferreds which fell down to Rs. 390 and Rs. 1,372-8-0 from Rs. 395 and Rs. 1,935 respectively. It is not that all industries benefit by the outbreak of hostilities but there are some which are engaged in the production of war material and equipment that benefit by its effect but in general the effect of war is destructive to confidence and demoralizing to market price levels.

The Rearmament Programme of all the nations in the years 1936 and 1937 made Steel Shares a centre of attraction and it would create enhanced demand of steel products. The price of steel manufactures increased by leaps and bounds, the same happened to Tata Steel products and as a consequence

1.	19th August Closing	24th August Closing
Ahemdabad Advance	Rs. 486½	Rs. 490
Bombay Dyeing	1,942½	1,985
Central India	410	433
Century	795	828
Colaba Land	231	242
Gokak	328	346
Indian Bleaching	197	206
Kohinoor	575	608
Simplex	268½	289

2. Vide Appendix XXVI

there was a scramble for Tata Steel Shares in the first week of January 1937, with the results that the Ordinaries which has closed at Rs, 247 opened at Rs. 300, and Deferreds advanced from Rs. 950 to Rs. 1,182-8-0 and this rise continued in the month of February to Rs. 302 and Rs. 1,402-8-0 respectively. But the intense rearmament programme continued and there was a mad rush to buy Steel Shares which led to a rise in Tata's to fancy levels. Tata Deferreds registered a spectacular rise of 460 points touching Rs. 1,890, while ordinaries moved up to Rs. 396 and touched their peak level on 17th March, soaring to Rs. 2,290 and Rs. 455 respectively. This indicates how far the possibility of war may affect values of a particular class of industrial shares.

The outbreak of war in September 1939, again changed the industrial outlook and price which prior to the outbreak of war were in a depressed state advanced considerably as there was a growing feeling that Indian industries would benefit materially owing to war, since not only would foreign competition be less aggressive but there would be a good scope to increase the exports of Indian manufactures abroad. But at the same time fixed interest bearing stocks were adversely affected in sympathy with the Gilt edged market. [*e. g.* Capital security index number if counted to be equal to 100 for August, 1939 rose to 149. 5 by December in the same year and by March 1943 rose to 187 and has further risen to 235 by October, 1944.]

All throughout the five years of the present war, it will be noticed that any reverses of Allies has tended to bring about a set back in share values, while their advancement and victory have caused share values to show signs of improvement. Take for instance the times of May and June, 1940, when following the alarming developments of the war situation in Europe the Stock Exchange exhibited signs of extreme nervousness and a heavy selling pressure was noted. The surrender of Holland to Germany was taken as a grave factor resulting in a steep fall in share values. Prices which have considerably fallen down by the end of April further deteriorated and May 22, 1940 saw a serious dislocation in the market and the market was closed down to prevent further fall. [*e. g.* By the end of April, Tata Deferreds had declined by nearly 400 points to Rs. 1,685-8-0, while Ordinaries had lost about 56 points to Rs. 346. The cotton mill shares suffered the same fate. Bombay Dyeings touching the low level of Rs. 970 Centuries Rs. 348 and Kohinoors Rs. 356. Other industrials and Bank shares also declined. Anglo-India fell from 350 to 300. Hukamchand from 7-13 to 6-3, Barnagar from Rs. 121 to 108 and Kamarhatty from 502 to 455.] Bombay market remained closed for forward trading and making-up prices were fixed. June settlement was postponed and selling-out rule was suspended. So also Calcutta market was closed on 20th May and any body doing business during the closed period was liable to a fine of Rs. 5,000.

Similarly on other occasions of Allies reverses a set back in prices was noticed. The Stock Exchanges were badly affected by the invasion of India by Japan and loss of Singapore. Prices in consequence showed a downward trend and a confusion all round was visible and there was a large volume of selling. Though due to panic created by air raids over Calcutta and Chittagaon, gold and silver prices soared to higher levels, share values recorded a fall. Steels, textiles, plantings all were likewise affected. The rubber shares too inspite of prospects in the immediate future were no exception to general selling pressure. Bank shares and chemicals were all down by a few points. 3½% Paper too declined by annas -/12/- to Rs. 98-8-0. At the Calcutta Market, Indian Iron and Steel and Steel Corporations, the leaders of the market, fell from Rs. 34-10-0 and Rs. 25 to Rs. 32-8-0 and Rs. 23-8-0 respectively.

On the other hand in the middle of March, 1941, prices were mainly affected on account of favourable political news. The reported liquidation of the dispute between Thailand and Indo-China, the firm resolve of the Turks to face the German aggression, if it were to endanger their independence, the possibility of Yugoslavia turning the tàbles against the Nazis, and above all the news regarding the passage of the Lease and Lend Bill by the U. S. A. Senate all these factors were responsible for instilling confidence which was responsible for a more lively trading with an allround improvement in prices. So also in August and September 1941 market was mainly influenced by Allies victory. The seriousness in the Far Eastern situation in early August, 1941 brought about at the first instance a feeling of nervousness, but the news about the freezing of Japanese assets in India, Great Britain and U. S. A. led to a sharp rise in the values of textile shares as this would mean the cessation of imports of textile goods from Japan. Similarly early in September, 1941 Tata Deferreds beginning at 1997 8·0 reached a high level of Rs. 2,090 because of the return of confidence following the successful R. A. F. attacks on German territory and the Allied Coup in the Arctic.

But it should not be misunderstood by the above instances that favourable war news would always bring about a rise in share values. It all depends upon the effect of the news on the minds of the speculators as at times a victory to Allies might be interpreted as a cessation of hostilities and an early end of the prosperous war time to the industries and may as a consequence bring about a set back in share values. An example to this effect may be seen from the war time development during the months of August and September' 1944. During these months allied powers have exhilerating successes so much so that the German break-through at Sedan towards the end of May, 1940 and rapid successes achieved by them in the following months, culminating in the collapse of France, pale into insignificance as compared to the advance made by the Allied Army in France during the later half of August and early in September, 1944. This naturally had its effect on share markets, and while fear and nervousness were responsible in depressing share values in June, 1940 ; prices now have been marked down owing to the possibility of the collapse of Germany in the near future. The operators in the market were under the impression that with peace in Europe the Indian market would be dumped with consumer goods from England and U. S. A., resulting in a set back to the war time industrial prosperity of this country. Prices would decline and profits of industry would be adversely affected and this view resulted in an allround fall in share values.[1]

On the whole it can be said that period of war coincides with a period of business activity and prices of almost all equities tend to move up and the termination of war, on the contrary, would mean an inevitable slowing down of activity and would usher an exactly opposite set of conditions. Many of the industries which are now thriving on war orders and also on account of the absence of foreign competition are likely to experience a retardation of progress. At this stage even a number of complaints are heard from a number of indigenous industries that taking advantage of better shipping facilities foreign importers have begun to dump goods on the Indian markets to the detriment of Indian industries. Industries of America and United Kingdom would try to capture Indian market and it would bring about a different set of conditions.

1. Vide Appendix XXVII.

(v) Local.Politics :—

It is not only the war that affects the minds of the investors and the speculators but other political developments both home and abroad bring about changes in share values. Even the change in the cabinet of a Government may bring about a change in share values as operators on the Stock Exchange are very quick in interpreting the consequences, as happened in the month of July 1941, when share prices particularly of textile section advanced due to discouraging reports from the East regarding impending changes in Japanese cabinet. The share markets are so sensitive to these changes that even a speech by a statesman at a particular time might affect share values so adversely that within a few hours many a dealers might suffer a huge loss and a few might come to grief. "Politics and finance are becoming so hopelessly entangled and has a very direct and telling influence on prices."[1] As for example the resignation of congress ministries in the year 1938, affected Gilt-edged adversely and again in the second week of August, 1942, the cloudy prospects in domestic politics and country-wide disturbances following the arrest of nationalist leaders led buyers to keep aloof and prices remained stable. A feeling of hesitancy was noticed and operators were not inclined to trade owing to disturbed political situation. Similarly Mahatma Gandhi's fast in February, 1943 was undoubtedly a cloud over-hanging the immediate political future and was responsible for general pessimistic view and a fall in prices, though the fall was not very marked owing to better news from all theatres of war and the substantial weight of money seeking investment. Though prices declined and book profits sought to be established wherever possible, yet the pessimism so developed was soon dispelled by the mild provisions of the budget for the year 1943-44 and all markets and Stock Exchanges every where celebrated the event with loud gusto. Cotton registered sharp rise of 200 points in a week and the Stock market boomed. From the low point of Rs. 1,690 touched in the second week of February, Bombay Dyeing surged steadily upwards to Rs. 2,055, in mid-March, while Tata Deferreds were up from Rs. 1,670 to Rs. 2,125, the appreciation in the value being 22 and 27 percent respectively. On the Calcutta Stock Exchange, Raza Textiles shot up from Rs. 43 to Rs. 55, Elgin mills from Rs. 47 to Rs. 55, Indian Irons from Rs. 31 to Rs. 37-8 and Belsund Sugar from Rs. 8 to Rs. 10-4-0 representing an advance of 28, 17, 22 and 31 percent, while on the Madras Stock Exchange, Combodia shuttled up from Rs. 32 to Rs. 38 ; Radhakrishna from Rs. 435 to Rs. 495 and Midlands from Rs. 17-4-0 to Rs. 19 recording a rise of 19, 14 and 10 percent respectively.

(vi) State Policy :—

In addition to these factors there are a number of state measures such as various ordinances passed from time to time, changes in the taxation system, for example, imposition of additional duties and taxes ; rationing schemes, change in the government which bring about wide changes in share values. Let us study the effect of a few of these factors.

(a) Duties and Taxes :—

Any imposition of a duty or an enhancement of taxes would affect share values according to its repercussions on the minds of the investors. For example in the year 1931, following the proposal of an additional 5% duty on imported cotton piece goods, the price of cotton mill shares advanced to a very great extent. So much so that Bombay Dyeing rose from Rs. 666-4-0 to Rs. 740, Centuries from Rs. 251-8-0 to Rs. 282-8-0 and Fazulbhoy from Rs. 368-12-0 to Rs 425. The price of textile section further rose in 1932, when

1. Hartly Withers—Stock and Shares.

the import duty on cotton manufactures of non-British origin was raised to 50% with immediate effect from September 1, and the specific duty of 3½ as. per lb. on grey goods was raised to 5¼ as. per lb. or 50% advalorem whichever was higher thus giving an additional protection to the home industry. On the other hand the Indian Steel Protection and Excise duty Bill introduced in the Legislative Assembly on July 25, 1934, provided for an excise duty of Rs. 4 per ton on all steel ingots produced in British India and this was taken as a bear factor by Tata Steel shares which witnessed sudden drop in values. Tata Ordinaries dropped from Rs. 72 to Rs. 69-10-0 and Deferreds from Rs. 295-10-0 to Rs. 270. Similarly the imposition of an additional excise duty on sugar of 11 annas per cwt. making it to Rs. 2 with effect from 15th April, 1937 were responsible for a weak tendency in sugar shares. Belapurs declined to Rs. 161-4-0 recovering later to Rs. 170 in sympathy with other sections.

Recently the announcement of the Excess Profit Tax freezing a part of the Excess profits brought about a sharp decline in share prices. In the month of January, 1940 even the rumour regarding the imposition of such a tax was so effective that prices of all shares dropped considerably. Tata Steel Deferreds having touched Rs. 2,332-8-0 fell down to Rs. 1,845, Ordinaries to Rs. 345, a fall of about 100 points ; Bomby Dyeing to Rs 880, a loss of over 350 points ; Centuries declined to Rs. 288, Kohinors to Rs. 310, New Greats to Rs. 300 the fall in each case being 150 to 200 points. The Excess Profit Tax Ordinanee, announced on 18th May, 1943 and a Company Flotation Prohibition rule both were responsible for a downward trend of prices. Above all came the ban on forward trading in the current cotton crop which brought about a further deterioration in prices.[1]

Similarly an enhancement in railway freight on goods traffic and also on passenger fares announced by the Railway Budget of the year 1940-41 led to a fall in share values as it was feared that this would mean an additional cost to industry in the matter of transportation and this fact also led to fear of increased general taxation in the forth-coming budget and prices declined considerably. But the publication of the budget on 29th February, 1940 inspite of duties on sugar and petrol did not affect the market as expected and prices showed an allround rise.[2]

A similar tendency was noticed on the announcement of complete freezing up of the Excess Profits and an enhancement in the surcharge on income tax and corporation tax, on February 29,1944. As would be indicated by the table[3] showing price movement, the operators could not realise the implications of these proposals in the first instance and simply noted the estimated deficit of Rs. 78.21 crores which was much below their expectations and as a consequence prices at the first instance showed a rising tendency but later on receded, though the fall was not enough as it was checked to a very great extent by the following statement of Mr. K. R. P. Shroff, the President of the Bombay Stock Exchange.

"The complete freezing up of Excess Profits in one form or another was inevitable and the method of compulsory deposits commends itself to the extent that it does not rob industrial enterprises of the fruits of their special efforts but on the contrary helps them to conserve their resources and strengthen their position in the post-war period which is bound to be one of extreme difficulties. The intrinsic value of shares will undoubtedly increase and the present share holders need not necessarily suffer as some companies may make up small dividends by issuing deposit certificates redeemble after the war less than the value of compulsory Excess Profit Tax deposits."

1. Vide Appendix XXVIII.
2. Vide Appendix XXIX. (a)
3 Vide Appendix XXX

(*b*) *Ordinances* :—

During the course of five years of war-time economy a number of ordinances have been passed, which have all affected share values. The enforcement of Anti-hoarding and Anti-profiteering ordinance for a number of articles brought about a hesitant attitude in the minds of the speculators and was responsible for a dull market in November, 1943. The Capital Control Order and the prohibition of *Budla* Business are the two more which deserve mention. The Capital Control Order at a time was looked upon by the speculators with a favourable attitude while the other created a check on their business and created a feeling of hesitancy and nervousness. But the ban on *Budla* business with effect from 24th September, 1943, led to brisk covering of short positions, bringing about steep rise in prices, particularly in those shares in which there existed considerable bear account.

(*c*) *Passing of the Lend Lease Bill* :—

The passing of Lend Lease Bill in U. S. A. has a direct bearing on Indian economic conditions, as a consequence in the middle of March, 1941, a rise in prices was noted. The volume of business increased and prices of shares in the forward sections rose up to a considerable extent.

It is clear, therefore, that any political move which is likely to affect the earnings of the industry, favourably, would tend to bring about a rise in share values. On the other hand if the operators feel that the profits of the industry are going to be impaired by any political dislocation and disturbances it would bring a change on the other side.

(vi) Publicity and Press :—

'Power of the press is proverbial' and exercises a great influence not only on the minds of the speculators and investors but on the public in general. Practically, every newspaper and commercial and economic magazines and journals devote a special column to market reviews which in addition to the headlines, leading articles, company reports, stop-press news are looked upon by the dealers with great impatience as they all contribute towards the making-up of prices. Not only that, certain newspapers employ trained writers to review the conditions on the Stock Exchanges. Frequently 'tips' appear indicating whether a particular security is overvalued and should be sold or otherwise and if a reviewer has established a reputation in market circles his contributions affect price movements to a great extent. Prices on opening day of the week generally reflect a study of the various press reviews made at the week and which are read with great leisure by the dealers on the Stock Exchange.

(vii) Other factors :—

(*a*) *Earthquake*, *explosion etc* :—

In addition to the above mentioned factors there are a number of other factors such as, earthquakes, explosions, frauds, failures, death, devastation and disasters which affect share values to a greater or lesser degree. For instance the explosion in Bombay that occured in the month of April, 1944 overshadowed the Bombay market. The entire city life was disturbed and the market remained closed for three days. Financial losses running into several crores were estimated. This naturally weakened the position of Insurance Companies and Banks who have advanced loans against the properties and merchandise that were destroyed by fire. This naturally caused a considerable amount of nervousness among holders of shares of insurance and

banking companies and as a consequence the banks' and insurance companies' shares suffered heavy set back.[1]

Similarly the occurrence of earthquake or some such calamity depresses prices adversely. The death of an important shareholder who holds a number of shares would also affect share values. As in case of death the holdings of the deceased person may be sold on the Stock Exchange and when such selling on a large scale would take place, prices in that particular market would fall. Prices in other market might also fall in sympathy but only for a very short period.

Sometime one influential dealer at the Stock Exchange brings about a turn in the market values. The sudden rise in steel shares during the first week of December, 1944 was brought about by a large scale buying by a bull magnat. It is said that following Mr. Churchill's speech on December 6,1944, indicating prolonged and hard fighting in Europe, the leading bull who already had to his credit 4,000 Tata Deferreds began to make fresh purchases. This action coupled with the absence of offerings scared the bears and force them to cover their long standing sales, and as a consequence Tata Deferreds gained nearly 100 points, rising from Rs. 2,160 to Rs. 2,270 and Ordinaries from Rs. 404 to Rs. 410-8 0. The failure of a Managing Agency firm is still another factor affecting share prices. Rumours regarding the failure of the House of Currimbhoy brought about a liquidation on the part of holders of that group in the last week of September, 1933. As a consequence some of the mill shares under the management of Messrs. Currimbhoy Ebrahim and Sons lost more the 100 points. Fazulbhoy shares fell from Rs. 228-12-0 to Rs. 130, Indore Malwa from Rs. 318- 12-0 to Rs 270, Pearls from Rs. 167-8 0 Rs. 83-12-6.

(*b*) *Holidays :—*

The working days preceding a long holiday such as Christmas and Durga Puja have been noticed as periods of inactivity and more often dull conditions are found as the operators are in a holiday mood. But during the holidays a large number of orders accumulate which are to be transacted on the opening day, and hence a heavy turnover often takes place and if other conditions are favourable prices tend to rise, as happened in the first week of January, 1944, when market reopened after Christmas vacations. The accumulation of orders during holidays led to heavy buying and prices advanced to a very great extent.

(*c*) *Psychology :—*

More often it is the psychology of the investors that plays a more important part in decidng price trends than actual factors. It is not enough that some actual happening has taken place but the determining part is how that factor brings about a change in the psychology of the operators. For example Hindu operators regard *Moorat day* as the most auspicious day and any business transacted on that day is regarded as the work of some invisible Divine Power. The result of that day's trading has a psychological effect on their tradings in general and governs their operations.

(*d*) ***Rumours and Manipulations :—***

Manipulation is difficult to define and conveys the idea of artificially influencing prices. Some writers have defined the term as meaning fraudulent methods of manipulation—circulation of false information. Wash Sales and match orders are examples of such manipulations. Under wash sales, fictitious sales are made by one party to the other with a view to raise the price of the

1 Vide Appendix XXIX (b)

security or to make it more attractive. One party through manipulations arranges with the other to take the stock when offered for sale at the inflated prices. This action where buyer is not responsible for payment enables the other party to inflate the prices of stock and may also arouse sufficient interest in the stock and may cause many unknowing parties to purchase stock at inflated prices. But such sales are prohibited by Stock Exchanges. Match orders similarly refer to the practice of using two or more brokers, one to buy and the other to sell the same stock at the same time and thus to cause prices to rise higher or decline further. In such a case the same man is purchasing or selling through the agency of two brokers, who are not aware of the secret of the transactions and seem to be entirely ignorant of the fact that their client has given opposite but corresponding orders to other brokers. In this way the dealer may be able to fulfil his objectives when the desired price level has been stabilized.

A Stock Market unlike any other market is influenced to a very great extent by rumours of all kinds. The bulls and the bears in their own interest spread all sorts of rumours, baseless or otherwise and try to bring the market in their own favour. Sometimes these rumours prove to be an intelligent anticipation of events and sometimes they represent the leakage of certain information. In most cases they are circulated by persons to suit their own ends and usually it is most difficult to trace their origin. The fact is well illustrated by the following quotation :— "The greedy ones are the easiest to dupe. The gamblers in the various *phatka* markets have thus a special proneness for gup and gossip of every kind. And rumour mongers command a premium in such circles. In any other societies they will be dubbed busy bodies who should be kept at arm's length. *'Kya Khabar Saheb'*, is the slogan which the phatkawala addresses to outsiders who pretend to intimacy with influential quarters, what time he asks his compeer and colleague '*Kya Dam*'. Curiosity is an inseparable attribute to cupidity, and '*Khabar*' of any description, of whatever degree of reliability has a value in the market place. When shares of a famous group were, in the early twenties, flaming up each half-hour during an excited week, a rumour monger brought the news that one of the partners of the group had committed suicide. The retailer of this precious tit bit could not be located, but the news spread like wild fire, and prices took a nose-dive. It should have been easy to verify the accuracy of the information so gratuitiously vouch safed; but no one thought of it as each one was busy hurling shares on a steeply declining market. It was only after considerable havoc had been brought that another member of the news vending fraternity turned up with the announcement that he had telephoned the office and learnt authoritatively that the news about the partner was a pure canard."[1]

But the effect of these rumours is usually temporary and afterwards they are forgotten, but more often their extent is very dangerous, though it all depends on how these rumours work on the minds of operators. At one time the statemant of Herbert Hooper (an Ex-American President) that 'we are increasingly in the later stages of the European war', led the operators to believe that the war will come to an end suddenly. The belief gained further ground on account of the speech of Marshal Stalin which has promised an early liberation of Russian Territories still under the grip of Naziz. These two statements provided a basis for the market operators to discount the future of industries and they were busy in spreading all sorts of rumours. At the other time the speeches of Mr. Churchill and Hitler towards the close of the second week of November, 1943, indicating that the war would be a prolonged one, did not alter the sentiments.

Again in the first two weeks of November, 1943 the prices of Central Banks and Swadeshi Cotton Mills in the Bombay market, Elgins in Calcutta,

1. **Indian Finance—October 26,1935.**

and Coorg Rubber and E. I. Distelleries and Sugar Factories in Madras, advanced merely on the basis of rumours. The first three scrips have gone up on rumours about the issue of new shares on very favourable terms. Of the last two scrips, Coorg rubbers have moved up on reports about the sale of the company, while the E. I. Distelleries have found favour at hardening rates on rumours that the sterling capital of the company will be converted in rupee capital. Thus the fact is evident that "the markets sway to and fro not in response to facts and developments but in response to *Khabar*, true and untrue, and slightly true and largely untrue. "Bear-Bull" right in the heart of the Exchange Ring, will relay, periodically such gossip as has csused Gyrations in prices and changes in sentiment."[1]

(E) Special Factors :—

Sometimes for special reasons pertaining to one group or kind of companies the value of shares fluctuate and they in turn might bring a sympathetic rise or fall in the values of other shares. In such cases enquiries in the first instance centre round selected scrips because of certain special reasons. For example in the second week of November, 1943, on account of the return of Sir, H. P. Mody from Calcutta where he had gone to arrange for the regular supplies of coal the factories of A. C. C., the Associated Cements came to the fore and prices advanced as the dealers felt that his mission would not be in vain. Similarly at the same time the prospects of a rise in sugar prices provided some incentive for buying sugar shares, particulary those having their own cane farms. Rumours about a free issue of preference shares and a handsome dividend enabled Swadeshis to be the centre of attraction in the textile section.

(i) Dividend and Earnings :—

Earnings of a company occupy a supreme position in the determination of the values of industrial shares. It has often been noticed that at times when the dividend has been announced, the values of company's shares have flared up and if the dividend announcement happens to be much more than what was expected, it further stimulates the prices to a greater extent. Contrary would be the case if due to some reasons the company's earnings are going to fall, which will not enable a company to maintain its former level of dividends. But at times it may be noted that the prices of certain shares might actually fall when the company in question has declared a higher dividend than expected. It is because that the speculators much in advance to the declaration of dividends purchase in anticipation of such high levels of dividends and prices as a consequence go up to a very high and artificial level and by the time the dividends are declared, these prices reach their top limits and it is at that time that the speculators sell out quickly with a view to collect their profits and this large scale selling might cause prices to fall down. A similar experience was noted in the prices of Tata Iron and Steel shares which advanced sharply in the beginning of June, 1938 on the expectation of better dividends. Deferreds advanced from Rs. 795 to Rs. 972-8-0 and Ordinaries from Rs. 198 to Rs. 232 In the second week of June when dividends were actually declared (Rs. 15-8-0 on Ordinaries and Rs. 75-11-3 on Deferreds) prices advanced further upto Rs. 1,030 and Rs. 232 respectively ; but profit taking at higher levels quickly wiped off the gains and as a consequence Deferreds declined to Rs. 835 and Ordinaries to Rs, 201. As a general principle it can be said that a rise in company's earnings is an indication of prosperous times for the industry and this would be followed by a rise in the values of company's shares.

1. Indian Finance, December 2', 1944.

The earnings of the Begg Southerland group of Sugar companies for the year ended June, 1943, inspite of difficulties in regard to cane supplies and Government Control, increased to a very great extent to Rs. 37,06,293 against only 11,16,209 for 1941-42. Though a bulk of the increase in earnings has been taken up by additional provision for taxation it has been possible to increase the dividends to shareholders. Balrampur Sugar Company Ltd. returned to dividend list after the lapse of many years, while Champaran declared a dividend of 30 per cent against 15°/o, Samastipur Central 10°/o as against 5°/o and Ryam 20°/o against 5°/o. This increase in dividends and earnings brought about a rise in sugar shares.

The same happend in case of Tata Iron and Steel Company Ltd., in the year 1936 when in the month of May, a dividend of Rs. 6 per share on Ordinary, Rs. 7-8-0 on Deferred and Rs. 17-8-0 less income tax on 2nd Preference shares were declared after a period of eight years. The market on this announcement improved and the quotation of Tata Deferreds advanced to Rs. 526 4 0 and for Ordinaries to Rs. 151 8 0. On the other hand a selling pressure was noticed following the report that the directors of the Bombay Dyeing Mills have decided to pay an interim dividend of Rs. 25 as against Rs. 35 last year. Operators on this report began to discount the prospects of the company and a bearish trend was visible. As a result Bombay Dyeings came down from Rs. 1,857-8-0 to Rs. 1,791-4-0 during the week ending 30th August, 1944. A similar tendency was noted in the case of shares of Imperial Bank the price of which declined from Rs. 1,025 to Rs. 888-12-0 in case of fully paid-up shares and from Rs. 257-8-0 to Rs.218-12-0 for contributories, on a reduction in the rate of dividend from 16 per cent to 12 per cent in the year 1931.

From the above illustrations it is quite evident that a change in company's earnings and dividend announcement is accompanied by a change in share values and any limitation of dividend by any legistative enactment is likely to bring about a collapse in share values, This actually happened on the Finance Members pronouncement in the Assembly to the effect that "Government was considering the question of restriction of dividends accompanied by a provision of compulsory savings." This had an intimate bearing on equity shares and affected the morale of the operators and brought about a liquidation of holdings and as a consequence, price tumbled down.[1]

But so far as the relation of the profits with the long term rate of interest is concerned, an increase in the long term rate of interest on investments would tend to depress the values of scrips or *vice versa*. Long term interest rate, typifies the productivity of capital in general as it represents the interest on those investments which are free from risks and shareholders in addition to a remuneration for risk bearing, expects to earn at least as much as is represented by this 'long-term rate of interest on investments'. As a result any change in it, without a simultaneous change in the rate of dividends, is bound to effect share values.

Besides, expectations of future profits bring about a more inportant influence than the attraction of past profits. Expectations of future profits, no doubt are based on a number of factors, such as the potential advancment of the particular concern as well as of the industry in general, currency and banking policies, trend of interest rates and a number of political and non-political influences affecting the prospects of industry or trade. If the future

1. Vide Appendix XXXI

prospects of an industry appear to be bright, the shares of that industry would be in good demand and as a result prices of those shares would show a rising trend.

(ii) Change in Takings :—

The railway shares generally advance in prices with an increase in "Takings" as there will be a better prospect of dividend and will decline in price with a decrease in "Takings". They are also influenced by weather conditions, accident, harvest prospects and the state of trade. Bad weather specially in the holiday season will cause a fall on passenger traffic and takings will probably be small. An accident will cause a fall in share values as there will be every prospect of large outlay being expended to repair the damage done. A good harvest, on the other hand, would cause a rise in share values as it would mean more business to railways to carry the grain from one place to another and these extra takings will help the dividend to swell. On the other hand depressed trade, strikes, rival competition and similar influences would have an adverse effect.

(iii) Change in the Capital Structure of public Companies :—

Share prices move up and down in cyclic motion in conformity with the general movement in prices, as we pass through periods of booms and depressions. But this general tendency is more often counteracted by a change in the capital structure of the company, such as increase in the share capital of the company, issue of shares on bonus terms, issue of fresh debentures, redemption of debentures, making up of partly paid share fully paid, reorganizing the rights of different classes of shareholders such as converting defferreds into ordinary and so on. Different schemes of capital reorganisation may affect the market in different ways. For example when fresh debentures are issued, it is regarded as a sign of weakness by the Indian investing public and operators on the Stock Exchange feel that in future the company would not be able to maintain its old level of dividends as much of the money of the company would be utilized in paying interest to debenture holders. Though at such occasions they forget that very often flourishing businesses need extra capital to make it more successful and may ultimately pay higher dividends to its shareholders. The issue of debentures by good and prosperous concerns should as a matter of fact provide a welcome feature to the shareholders of the company as money raised by debentures will be used for purposes of capital expenditure which will increase the company's earning capacity to a great extent which will in turn bring profit that will be more than sufficient to pay the interest on debentures and the transfer to Debenture Redemption Fund. Suppose for example a company borrows at 4% by means of debentures and invests the money into new projects. The yield from these projects will certainly be higher, say about 15 to 20% ; 4% will go towards the interest on debentures and a part to Debenture Redemption Fund, which will still leave the remainder for distribution among the existing shareholders. Thus the issue of debentures by a company, like Tata Iron and Steel under present conditions would bring about an appreciation in its share values, although there may be a temporary set back in the beginning.

On the other hand the redemption of debentures is usually regarded as a good sign as the company after paying off its debts would be able to declare higher dividends as it shall no longer be required to pay interest on debentures and the amount so saved may be used in increasing the dividends to be distributed to the shareholders. Thus at such times share values would show a rising tendency.

An issue of a new loan by the Government, on the other hand, would tend to bring about a fall in the values of existing loans. But in practice, however, new loans are issued on less favourable terms than the existing loans witn a view to maintain the price of the old loans. As on 4th July, 1944, when the Third Defence Loan was issued it was in the form of a reissue of 3%, 1951-54 loan redeemable at par and as a consequence there was a considerable bear covering and renewed investment demand. Consequently there was a sharp rise in prices, 3½% Rupee paper gained from Rs. 90-14-0 to Rs. 93-0-0 and 3½% 1947-50 loans from Rs. 101-11-0 to Rs. 102-8-0, 4% 1960-70 advanced from Rs. 106-7 to Rs. 108-13-0.

Similarly an issue of fresh capital on bonus terms would increase the price of shares, as happened in the case of shares of Central Bank which went up to Rs. 83/- in the third week of November, 1943, on the reports regarding the issue of bonus shares. On the other hand if new shares are issued for the purpose of creating more capital the price of the existing shares is likely to fall down as such issue would increase its supply.

Early in December, 1943, the prices of the shares of Imperial Bank of India advanced on account of a possibility of calling up a portion of the uncalled liability of its partly paid shares. As a result the shares advanced by Rs. 50. In normal times, any proposal to increase the paid-up capital would have been viewed by the market in a bearish manner as it would have raised the problem of 'maintaining the dividend level on the increased capital. At present, however, with deposits of banks standing at unprecedentedly high level and with a fairly better outlet for these funds than a year ago, there is no doubt whatever, that even if the existing paid-up capital were to be doubled, these banks would be able to maintain their dividend level. In fact the prospects of the banks being able to show substantially larger profits for 1943, and to raise, in consequence, their dividend levels have been the primary cause for the banks shares coming into the limelight.

Conversion of Deferreds into Ordinary on favourable terms, without in any way injuring the rights of other share-holders would mean a rise in the values of its shares. In May 1944 when it was rumoured that a fresh scheme was being sponsered by the agents of the Tata Iron and Steel Company to convert the Deferred shares into Ordinaries in the proportion of 5½ shares of the latter for one share of the former, Deferreds were quoted at Rs. 1,670 and Ordinaries Rs. 346. The conversion of Deferreds into Ordinaries at the rate of 5½ shares of the latter into one of the former meant a value of 5½ times of 346 to Tata Deferreds *i. e.*, 1,903 and as such there was a margin of profit to the extent of Rs. 233 (1903-1670) in one Deferred share. This factor brought about a sharp rise in the price of Ordinaries which advanced to Rs. 371 and Deferreds also advanced as a consequencc to Rs. 1855 on 15th May, 1944.

Change in ownership and sale of rights :—

Whenever there happens to be a change in the ownership and management of a concern its share values might fluctuate as happened in case of Sasoon group shares in the month of April. 1943 ; when negotations were going on by the managing agents of Sasoon group campanies for the sale of holdings and rights at attractively high rates.

(iv) Change in a Company's Board of Directors .—

Changes in the Board of Directors of a company often affect the prices of the shares of that particular company and may bring about repercussions of far reaching importance. The death of a responsible and influential member of the Board may cause share values to fall, particularly so if he himself

holds a large number of shares of that company. Frequent resignations of directors from the Board may also create suspicion in the minds of the operators regarding the financial stability of the company and cause a set back in share values.

(v) A provision in the Income-Tax Act :—

Section 18 (5) of the Indian Income-tax Act provides that for income-tax purposes the dividends and interests are the income of the owner of securities on the dates on which the dividends or interest fall for payment except in case of bond-washing. Thus the benefit of the Income tax deduction at source in case of Dividends or Interest on securities can only be enjoyed by the owner whose name is registered in the books of the company or the Public Debt Office prior to the due date of interest, irrespective of the fact whether he has kept the securities for one day or for six months or more. Thus if a security is sold cum. div. (the purchaser drawing the next instalment of interest and not the vendor), the vender cannot claim for the purpose of assessment that the interest should be treated as his income and cannot enjoy the benefit of the Tax deduction certificate issued by a Public Company or the Public Debt Office. This factor is also instrumental in bringing about a rise in the price of security a week or two before the date on which interest on such security falls due for payment. As happened in the case of Rupee Paper which went over Rs. 100 in the last week of October, 1944. This rise was attributed to the buying pressure of certain institutional investors–chiefly banks–with a view to take advantage of the Income tax Deduction certificates. Interest on this paper of 1865 issue is payable on 1st May and 1st November and as such the benefit of income-tax deduction certificates issued by the Public Debt office would be enjoyed by one whose name is registered in the books of the above office prior to the due date of interest viz. 1st May and 1st November. People desiring to take advantage of this provision buy this paper a week or ten days before the due date for payment of interest and get the securities registered in their names before that day. The seller of the securities gets from the buyer only the Net Accrued interest up to the date of the transaction but foregoes the Tax Deduction Certificate covering the whole half year in favour of the buyer, who while paying the tax on his income of the year, can claim deduction by presenting all such certificates to the Income-tax authorities. In this way the buyer can make considerable savings in his taxation expenditure particularly if he has purchased in huge lots. The extent of the benefit that can be enjoyed in this manner is evident from the fact that the tax deducted at source on the half-yearly interest on paper (at 54 pies in the rupee on half year's interest at the rate of 3½ per cent per annum) is as much as seven annas and 10½ pies on every Rs. 100 worth of paper. And it is on account of this benefit that people particularly the institutional investors are anxious to buy these securities a few days before the due dates of interest and this wholesale buying at a particular time raises the price of such securities. Such persons after taking advantage of such facility usually resell their purchases in the first or second week following the due date for payment of interest and that too, sometimes, even at a small loss of two or three annas which still leaves a net margin of six to five annas besides the interest accured during the period of their holdings. This is why it might be seen that after the 'interest dates' price of such securities would indicate a falling tendency.

(vi) Depreciation allowance for the cotton Mills :—

In the third week of November 1943, a sudden revival of interest took place in the cotton mill shares particularly in well known speculative scrips, like Bombay Dyeings, Kohinoors and Centuries on the reports that the Government of India has agreed to allow a substantial increase in the 'Depreciation allowance' for the cotton mills.

(vii) Petrol Rationing :—

Introduction of petrol rationing in early August, 1941, brought about a sudden spurt in Bombay Trams which in the course of two days gained 34 points to record the high level of Rs. 168-8. This rise was brought about on the faith that rationing would result in greater traffic receipts to the company. The prices of the shares of Hydro-elctric group also reacted favourably. Tata Hydros and Tata Powers improved to 191-8 and 1,757-8 respectively.

(viii) Washington Message on Coal shares :—

Washington message in October, 1943 suggesting that some part of the coal needed in the Medeterranean might be met by India and southern Africa provided a firmer tone to Indian coal shares. This was taken as bull point for Indian Coal Shares. In consequence there has been an all round rise in prices in which scrips of all denominations have participated ; Bengals, Burrakurs, Bhalgorahs, Borrea, Dhemomain and Katras Jherriah all appeared in the list of transactions.

(ix) Labour troubles and strikes :—

Labour troubles in a particular industry are likely to affect its earnings and if there exists a strong trade union it may bring about a general strike. This would bring about a fall-in share values. For example, rumours about an impending strike in the Tata Iron and Steel Works at Jamshedpur in May, 1938, had a disastrous effect on the market and even the news of tense situation in Europe could not prevent nervous holders from liquidating their goods. Tata Deferreds depressed to Rs. 880 from Rs. 920. Textiles followed the slump in steels but the drop in prices was less precipitous and was of a sympathetic nature only-Bombay Dyeings fell from Rs 808 to Rs. 782-8-0 only.

It is clear from the foregoing discussion that prices of stocks are subject to innumerable influences. International conflicts, troubles and disturbances such as strikes, lockouts, budget deficiencies, leading to increased taxation and similar other influences are likely to affect the earnings of the industry in opposite direction and would affect share values accordingly. On the other hand cheaper money conditions, distribution of bonus and larger dividends, better trade conditions etc. would react favourably on security values. So much so that every bit of information finding place in a financial journal or newspaper is given proper weight in a Stock Market. But it must be remembered that in actual practice these causes singly seldom affect the market and two or more factors may operate at the same time and sometimes it so happens that it is expected that a particular factor should affect the prices either adversely or favourably, but the expectations is not realized as the effect is checked by another factor which might be more powerful. As in December, 1937 inspite of the report that Kohinoor Company would be issuing a bonus share at Rs. 200 to present holders in proportion of one new share for every four shares held, a factor which should have brought about a rise in share values, the price of Kohinoors fell sharply to Rs. 337-8-0, owing to a rumour that the Textile Enquiry Committee would recommed an interim increase in wages which shall consequently affect the earnings of the company. Thus it is more often the combined effect of two or more factors, which is responsible in bringing about a change in share values which never move in a straight line for any prolonged period however rosy or gloomy the outlook may be.

CHAPTER VIII

FOREIGN STOCK EXCHANGES.

The New York Security Market :—

Stock Exchange dealings in New York were carried on even in the year 1792, when a beginning in this direction was made, but the New York Stock Exchange in its present form was organized only in the year 1865. Since the year 1817, the Stock Exchange has made rapid progress, both in membership and the volume of business which has been made possible owing to the demand of capital by rails and canals. Expansion of public debt has also been a stimulating factor. At times volume of business became greater than the Exchange could handle and this led to the development of other less formal markets, like the New York Curb Exchange and other local exchanges. The old system of "Calls" under which the market in individual securities were held at stated intervals was substituted by a "continuous market" dealing continuously in all listed securities. The market continued to expand and not only the number of members increased but other modern methods of transacting business such as clearing system and the ticker system were also adopted and led to further advancement, expansion and improvement.

(i) Constitution :—

Like the Native Share and Stock Brokers' Association, New York Stock Exchange is a voluntary, unincorporated, non-profit association of stock brokers. The exchange has no charter and its constitution is governed by a code of bye-laws. It is formed with a view "to furnish exchange rooms and other facilities for the convenient transaction of their business by its members, to maintain high standards of commercial honour and integrity among its members and to promote and inculcate just and equitable principles of trade and business."[1] It operates under the supervision of Securities Exchange Commission, created by the Securities Exchange Act, 1934, which provides for a multitude of details which are not provided for by the bye-laws of the Association. The Board of Governors responsible for the general supervision of the Association, consists of a chairman, a president and thirty members. The chairman is elected by the members from among themselves for one year and the president is a non-member elected by the Board of Governors to serve at the pleasure of the Board. The remaining thirty members of the Board consist of fifteen members of the Exchange, six non-members of the Exchange residing in the metropolitan area of Now York and six other members or non-members of the Exchange residing outside the metropolitan area of New York city and three representatives of the public. In this respect the constitution of the New York Stock Exchange differs from that of Bombay Stock Exchange where there is no outside representation on the Board of Governors. All the Governors except the chairman can be re-elected for six consecutive years, after that an interval of one year must elapse before they can be re-elected. The Governors are not paid any remuneration except a modest fee for attending the meetings. The executive authority is vested in

1 Constitution of the New York Stock Exchange.

the President who also appoints a Treasurer, a Secretary, a Vice-President and assistants to them. The Board is granted the necessary power to regulate the work of the Exchange. The work is carried on by thirteen standing Committees whose decisions are subject to appeal to the Board but no appeal is allowed against the decisions of the Committees on Admissions and Arbitration. The following Sub-Committees are appointed and carry on their respective functions.

(*a*) *Committee on Admissions :—*

Committee on Admissions consisting of fifteen members considers all applications for membership as also applications of suspended members for re-instatement. It investigates into the status and character of the applicant. A two-third majority is necessary for the election of a member. The nomination for membership is to be purchased from a retiring member or the representatives of the deceased member.

(*b*) *Arbitration Committee :—*

It consists of nine members and investigates and decides all claims and disputes between members and members as also between members and non-members.

(*c*) *Committee of Arrangement :—*

The committee consists of nine members and is entrusted with the work of general care of the Exchange and looks after the enforcement of rules and regulations. It is also the business of the committee to regulate and control the quotation service.

(*d*) *Committee on Bonds :—*

This committee is authorised to supervise the dealings in bonds and notes and consists of four members.

(*e*) *Committee of Business conduct :—*

It is one of the most important of the standing committees and consists of six members. The work of the committee as stated in the constitution is "to consider matters relating to business conduct and financial conditions of members and their customers' accounts and to observe the course of transactions on the Exchange, with a view to see whether resort is being had to improper transactions. It has the powers to investigate the dealings, transactions and financial conditons of members and to examine their books and papers. It may confer with members regarding any matters within its jurisdiction and advise the President in respect to any such matters and report to the Governing Committee any matter which in its judgment requires the consideration of the Committee."[1]

(*f*) *Committee on Constitution :—*

It is an advisory committee and consists of five members. All changes in the constitution are reported to this committee which, after due consideration sends them to the Governing Board.

(*g*) *Finance Committee :—*

It consists of seven members and is a sort of Audit Board which examines all accounts and vouchers and reports the result to the Governing Board.

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1. Constitution, New York Stock Exchange, Article X, Section

(*h*) *Law Committee* :—

.To this committee are referred to all questions of law affecting the interest of the Exchange. It acts in an advisory capacity.

(*i*) *Committee on odd-lots and specialists* :—

The committee is entrusted with the general supervision over dealings in lots of stocks of less than one hundred shares and methods of specialists.

(*j*) *Committee on Publicity*:—

The committee keeps the public correctly informed about the matters of public interest and works under the direction of the President.

(k) *Committee on Quotations and Commissions* :--

All matters relating to commissions, partnerships, collection and dissemination of quotations are looked after by the Committee which consists of nine members.

(*l*) *Committee on Securities* :—

It makes rules defining the requirements for regularity in delivery of securities and decides all questions relating to settlement of costs subject to the rules of Exchange.

(*m*) *Committee on Stock List* :—

All applications for the listing of securities are received by this committee which after making an enquiry is required to report its findings together with its recommendations to the Board.

The existence of all these committees indicates that even the minutest details are first examined by a sub-committee, while at the Bombay Stock Exchange though the Government is virtually the same, matters are not regulated by so many committees. It is due particularly to the nature of business and its volume and size. The volume of business transacted at our exchanges falls into insignificance when compared with that of New York Stock Exchange which forms an international market.

The Board of the Exchange is authorised to suspend or expel a member from the Exchange, if found guilty of fraudulent acts, making fictitious transactions or violation of the rules of the Stock Exchange. No person has a right to be represented by professional council in any investigation or hearing. Besides, there are other important provisions governing the activity of the members. Like any other exchange in the world, the New York Exchange also prescribes minimum commission scale with a view to check unfair competition among brokers and to provide better service to the people. Splitting of commission is also prohibited. The prohibition serves to do away the unnecessary middlemen who are beyond the control of Exchange and has provided for the concentration of business in the hands of the brokers, rather than permitting it to drift into the hands of banks. The members of the Exchange are not allowed to advertise other than for a strictly legitimate purpose and thus business tends to drift into the hands of those members who provide better service to the public.

The most wholesome provision of the Exchange is that the Exchange requires semi-annual financial statements and complete audit of customers' accounts from members who carry margin accounts. It acts as a check against reckless conduct of members and a protection against insolvencies. The principal provisions of the constitution and rules in the interest of the general public

those relating to manipulation of prices of securities dealt on the Exchange. These are punishable by expulsion and include regulations against executing transactions and against acts tendering to demoralize the market. All these provisions and many more similar provisions have been laid down to protect the interest of the public.

(ii) Membership :—

Like the other stock exchanges of the world, an intending member has to submit an application giving out the required particulars to the Committee on Admissions which makes an investigation into the character and status of the applicant. The applicant is required to purchase a nomination from a retiring member or from the representative of a deceased member and is required to pay an initial fee of $ 4,000. Only citizens of U. S. A. and of at least 21 years of age are eligible for membership. A two-third vote of the committee is necessary for his election. The price of membership or "Seat" varies according to supply and demand and represents roughly a capitalization of its current and prospective earning power, thereby giving a fair indication of the contemporary activity of the stock market. Membership of the Exchange is limited to 1,375 having been increased from 1,100 in 1929, through the issuance of rights to 1/4 of an additional seat for each old seat held.

Classification of Members :—

A peculiar feature of the New York Stock Exchange is the functional classification of its members into five main types. The functional division is not the result of any constitutional requirement as in London but is a natural division of labour to take care more adequately of the business to be transacted at the Exchange.

(a) Commission Brokers :—

Commission brokers, about 391, in number, form the principal class with whom investors and speculators come in direct contact. They act as commission agents for those non-members who wish to buy or sell shares and securities and receive and execute their orders. These commission agents act as intermediaries between the public on the one hand and the market on the other and their clientele mainly consists of investors and speculators. Some of these brokers mainly confine their business to institutional investors and their main interest lies in getting as much business as possible as their commission income varies directly with turnover. These brokers have highly organized offices equipped with all modern methods of business. The importance of their offices lies in the fact that they have a number of person on their staff as clerks, book-keepers cashiers and messengers. They have a separate statistical department to analyse securities for the firms, partners and customers. They usually have a "Board Room" in which their customers can follow the quotations as they are thrown upon a screen from a ticker by a translux machine. The number of shares sold is usually reported each hour so that the trader can gauge the pace of the market, On an electric board, recently invented, all price changes are mechanically and instantaneously recorded. In brief the offices of these brokers are highly organized and the business is transacted in the most modern style. They are also allowed to transact business on their own behalf.

(b) Two-Dollar Brokers :—

These brokers have no direct contact with the public. They help the commission houses in the execution of their orders and thus act as the broker

of brokers. There name is derived from the fact that these brokers used to charge 2 dollars for every 100 shares bought or sold through them. Although the amount charged now is different but the name remains. Generally the services of these brokers are required when commission brokers have more orders than they can themselves handle efficiently. The public is also benefited as their orders can be executed promptly without any cost to them. This reflects on the amount of business that is transacted at the New York Stock Exchange. On our exchanges, though a broker can take the assistance of another broker if he finds it difficult to execute all the orders received by him, yet there does not exist any special class of persons to transact business on behalf of brokers. The two-dollar brokers carry on the necessary negotiations with the "Dealers" on the floor of the Exchange and on completion of the transaction they "give up" the name of their principal. Thus the transaction though operated by the two-dollar brokers, ends in the name of commission brokers.

(c) *The Specialist :—*

There are certain members who specialize in one or several stocks, and are known as "specialists". They combine the functions of a dealer and a broker. They may buy or sell on their account under certain restrictions and may also execute orders for others on commission basis. It is the specialist who makes the first bid as soon as the market opens thus determining the opening price of their special stocks. Their quotation is based on the previous days' closing price and on the position of their books at the time of the opening of the market. The specialist opens the stock at a price which will result in the best execution of his orders. Some-times it becomes difficult for the specialist to quote a fair opening price due to a number of factors affecting market tendencies, such as the announcement of a cut or increase in dividend, enhancement of the rates of taxes etc. Customarily if the opening price is conspicuously far from the previous closing price, the specialist gets it approved from a member of the governing committee with a view to save himsilf from public criticism and possible disciplinary action. Specialists sometimes take an undue advantage of their position as is indicated by their books and the price may be deflated much above the current market price. Besides, as he is authorised to trade on his own account, he may also take an unfair advantage to the detriment of the investing public. Sometimes these two positions may be combined and he may dispose off his own holdings to the clients at his own price.

(d) *Oldlot dea lers :—*

The usual unit of trading on the New York Stock Exchange is 100 shares and the price quoted in daily newspapers relates to 100 shares' lot. But transactions are also affected in less than 100 shares and such a trading is known as old-lot trading. Trading below the prescribed lot is permitted to accommodate a multitude of small investors and traders and this is a very wholesome feature of the New York Stock Exchange. Such trading is effected by old-lot dealers who are persons who can transact business in any odd-lot whatsoever. They are about 40 in number. They do not deal directly with the public, but derive their business from commission houses which are acting as agents chiefly for their clients. The odd-lot houses have to maintain a large clerical staff. It is said that one large odd-lot house maintain a force of about 1200 clerks and occupies half a dozen floors in large and expensive office building. These firms naturally have large financial resources. Their business involves a tremendous accounting and transfer work, which is not cleared by the Stock Exchange Clearing corporation. An odd-lot dealer specializes only in odd-lot business and is always prepared to buy securities at a price slightly lower than the market price of the full unit of 100 shares.

similarly he is prepared to sell at a slightly higher price. In this way he hopes to off-set his purchases by his sales. In case he finds only sellers and no buyers, he sells off his purchases to a specialist as soon as his books show him that they have reached the regular limit and thus squares off his bargains.

Odd-lot dealers thus form an indispensable link between the small investors through the commission houses on the one hand and the market on the other. But for the existence of the odd-lot dealers stock exchange business would be curtailed to a very great extent as it is estimated that odd-lot business accounts for 30 per cent of the full lot transactions and the number of odd-lot orders far exceed the number of limit orders.

There are about 115 odd-lot brokers as well who act as representatives of the odd-lot firms on the floor of the Exchange and are compensated by them. They have no public customers but can transact business on their own account.

(e) *Floor Traders :—*

They perform a similar function as that of a jobber at the London Stock Exchange and ***taravaniwala*** at the Bombay Stock Exchange. But unlike them they do not specialize in any security but deal only in those securities which show signs of great activity. They are not required to maintain well-equipped offices but simply hire a desk room in some commission house and it is through that house that they clear off their transactions. They also give the name of the house on all of their contracts and pay a fee of $1 or more per 100 shares of stocks to have their sales cleared for them. They are quick to take small profits and cut small losses and it is this technique in which they specialise. They thus seek a profit from small price fluctuations and quick turnover of a relatively large commitments. They square up their business every day and have no outstanding purchases or sales before the close of business.

These traders render an indispensable service as they provide a continuous market, ever willing to buy or sell a particular scrip. A floor trader generally quotes two prices, the "bid price" at which he is prepared to buy and "an offered price" at which he is willing to sell. He is thus not necessarily a buyer nor a seller and it depends on the other party with whom he deals. Secondly they stabilize prices to a certain extent. In a falling market, they enter to purchase, which brings about a rise in prices while in a rising market they tend to sell which brings about a fall in prices and these tendencies in turn bring about an equilibrim of price and foster stability. But in some cases particularly in abnormal times, these operations of floor traders may widen fluctuations rather than stabilize them. In a falling market when they appear as buyers if the decline continues they, with a view to cut their losses, double their sales and this would affect the price structure adversely. Similarly in a rising market when they appear as sellers, they may purchase doubly if the fall continues and this would again affect the market adversely. This is a serious drawback of the floor traders. But this defect seems to be insignificant in view of the services rended by these traders by providing a continues market for stock exchange securities.

In addition there are a few inactive members who do not frequently appear on the floor of the exchange. They are generally associated with some firm of investment bankers and transact their business through active members at a greatly reduced commission, which is possible on account of their membership of the Assciation.

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Similarly he is prepared to sell at a slightly higher price. In this way he hopes to off-set his purchases by his sales. In case he finds only sellers and no buyers, he sells off his purchases to a specialist as soon as his books show him that they have reached the regular limit and thus squares off his bargains.

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(e) *Floor Traders :—*

They perform a similar function as that of a jobber at the London Stock Exchange and ***taravaniwala*** at the Bombay Stock Exchange. But unlike them they do not specialize in any security but deal only in those securities which show signs of great activity. They are not required to maintain well-equipped offices but simply hire a desk room in some commission house and it is through that house that they clear off their transactions. They also give the name of the house on all of their contracts and pay a fee of $1 or more per 100 shares of stocks to have their sales cleared for them. They are quick to take small profits and cut small losses and it is this technique in which they specialise. They thus seek a profit from small price fluctuations and quick turnover of a relatively large commitments. They square up their business every day and have no outstanding purchases or sales before the close of business.

These traders render an indispensable service as they provide a continuous market, ever willing to buy or sell a particular scrip. A floor trader generally quotes two prices, the "bid price" at which he is prepared to buy and "an offered price" at which he is willing to sell. He is thus not necessarily a buyer nor a seller and it depends on the other party with whom he deals. Secondly they stabilize prices to a certain extent. In a falling market, they enter to purchase, which brings about a rise in prices while in a rising market they tend to sell which brings about a fall in prices and these tendencies in turn bring about an equilibrim of price and foster stability. But in some cases particularly in abnormal times, these operations of floor traders may widen fluctuations rather than stabilize them. In a falling market when they appear as buyers if the decline continues they, with a view to cut their losses, double their sales and this would affect the price structure adversely. Similarly in a rising market when they appear as sellers, they may purchase doubly if the fall continues and this would again affect the market adversely. This is a serious drawback of the floor traders. But this defect seems to be insignificant in view of the services rended by these traders by providing a continues market for stock exchange securities.

In addition there are a few inactive members who do not frequently appear on the floor of the exchange. They are generally associated with some firm of investment bankers and transact their business through active members at a greatly reduced commission, which is possible on account of their membership of the Association.

(iii) Method of Trading :—

The New York Stock Exchange is the greatest cash market in the world. All bargains are for cash, but orders may take any of the following shapes :—

(*a*) *Cash* :—The delivery and payment is to be completed on the day of contract. Price is generally lower, than the price in "regular way" and the difference represents one day's interest at the call loan rate.

(*b*) "*Regular way*" :—In this case delivery and payment are to take place on the second full business day following the day of contract. If that happens to be a Stock Exchange holiday, delivery and payment would be made on the next working day. Most of the transactions fall in this category.

(c) *Delivery at the Third day* :—Transactions are to be completed on the third day following the day of the contract. Investors who find present prices attractive, but cannot raise the necessary money can take advantage of this privilege. This is particularly beneficial to those clients who reside out of the city of New York and in the up-country. Recently, since 1st September, 1936, a system of two settlements a week has been evolved.

(d) Delivery at Sellers' option :—Delivery is to be made at the option of the seller within the time specified in the contract. The seller when he intends to deliver the securities is required to give a notice of 24 hours to the buyer. Notice cannot be given unless at least two days have elapsed after the bargain day. The option must be operated within 60 days but not earlier than the third day.

(e) "When issued" :—Under this case delivery is to take place when issued as determined by the committee on securities. 'When issued trading' is of considerable importance in the case of "rights". Right in their physical form are warrants issued by a corporation entitling the holders to purchase shares at a fixed price which is usually below the market price, the number being in proportion to the number of old shares held. At fiirst these rights may be dealt on the New York Curb Exchange on a "when, as and if issued" basis. If the Stock is listed on the Stock Exchange and after the issuance of the rights has been officially authorised, the Stock Exchange announces a date when such rights can be traded on "when issued" basis. They are then removed from the Curb Exchange. After the rights or warrants are actually issued to stock-holders. They are traded in "regular way."

The unit of trading at the Exchange for active shares is 100 shares lots, though business can also be transacted in odd-lots through the agency of odd-lot dealers. On our exchanges lots have been prescribed according to denominations of shares and business is allowed in any number if specified at the time of the contract. The fixing of a 100 shares lot makes each transaction sufficiently large to be a fair measure of the market value of securities. It also relieves the burden of the quotation and the ticker service which does not take any account of transactions in less than 100 share lots.

In addition to cash trading, credit transactions are also facilitated through a system of compulsory margins where at least a margin of 25 per cent of the purchase price is to be deposited. Trading in options is forbidden on the floor of the Exchange. Arbitrage dealings also are permitted but they are more common between New York and London. Such dealings are prohibited between the New York Stock Exchange and other cities in U. S. A. by the constitution of the Exchange.

(iv) Clearing House:—

The first clearing system of the New York Stock Exchange was established in May, 1892 and it was only in 1920 that the present much more comprehensive system has been put into operation by the formation of Stock Clearing Corporation. The corporation is organised under the laws of the State of New York. It has an authorised capital of $ 5,00,000, consisting of 5,000 shares of $ 100 each. All the shares are owned by the Exchange which directs its administration. Besides, there is a clearing fund of about 10 millions supplied by the members of the Exchange, in proportion to the clearings required by each. The management is in the hands of a President and the Board of Directors composed largely of members of the Governing Committee of the Exchange. The work is carried on through an intricate machinery involving the use of a number of forms and much accounting procedure. The Clearing House in brief provides an agency for the delivery and settlement of security transactions with maximum of speed, safety and economy.

(v) Ticker and quotation service :—

Ticker system is a mechanical device which through electrical impulses from a transmitter to a receiving set prints on the moving paper-tape the record of the transactions that take place on the floor of the exchange. This system is adopted with a view to enable the clients to know that their orders were executed at the prices reported by the brokers. Before the invention of this system there was no such device but the customers were provided some accommodation in the hall where they could observe their brokers while executing their orders. But it could not cope with growing volume of trading and hence the new invention came into existence. The ticker system though cannot be said to be the best method for locating individual transactions at least acts as a rough check on the execution of the orders and serves an important purpose in providing information about the market to the public at large. Besides, it enables the record of rapidly changing security prices promptly and continuously and thus brokerage houses and banks keep a check on their margins aud collateral. All matters relating to collections, dissemination and use of quotations are controlled and directed by the committee on quotations and commission.

(B) New York Curb Exchange :—

The New York Curb Exchange had its origin at about the time when the New York Stock Exchange first became a compact and organised market. Persons who were not members of the Stock Exchange continued to trade in the streets in an unregulated fashion. The Curb Exchange moved from place to place and finally settled in the Broad Street near Wall Street and remained there till 1821. In 1908 a New York Curb Agency was formed to look after its organisation but that remained in existence only for three years and in 1911 the New York Curb market Association was formed.

Membership of the Exchange is limited to two types of members viz. Regular and Associated members. To be a regular member an applicant must be of 21 years of age and in case his application is approved by the commitee he is required to pay an entrance fee of $ 2,500, while Associate membership is granted by the Board of Governors upon application to any one who is above the age of 21 and is engaged in the business of buying and selling of securities. Such members are not allowed to transact business on the floor of the Exchange but are given enough concession in the rates of commission. Unlike regular membership associate membership is not transferable or saleable. The rules of the Exchange are mainly based on those of the New York Exchange.

Dealings on the floor of the Exchange are permitted in securities listed at the request of the corporation but certain unlisted securities can also be traded on its floor, if permission to deal in such securities has been obtained by a broker member.

It is the latter kind of dealings that constitute the main part of business at the Exchange and has been criticised on the ground that it constitutes nothing but a profit making arrangement. Dealings in unlisted securities are not permitted, if the issuer of such securities objects to such dealings and unless the company agrees to publish certain data which may be available to the public. The company is also required to furnish to the stock holders financial reports certified by independent accountant at least once a year.

(*i*) *Local Stock Exchange :—*

A number of local exchanges about 40, exist in the United States of America, mainly because of local pride and to regularise transactions in local securities. The business transacted at these exchanges is very insignificant as compared to New York Stock Exchange or New York Curb Exchange. These exchanges are generally voluntary associations rather than incorporated and the executive authority is completely vested to the Governing Committee which is granted very arbitrary powers and is even authorised to make regulations and penalize, suspend or expel a member. An applicant for membership must be recommended by two other members. As these Exchanges are faced with a severe competition with over the-counter markets, they have adopted very lenient and flexible listing requirements and more often trading is permitted in unlisted securities at the request of the members. The unit of trading ranges from 5 to 50 shares but in some cases of low priced stock it is as high as 1000 shares. Though the rules and regulations have been adopted on the basis of the New York Stock Exchange, they are not rigidly enforced.

(*ii*) *Unorganised or over-the-Counter Markets :—*

Over-the-counter markets are private exchanges for dealings in securities in which business is not transacted at the organised exchanges. In dealing over-the-counter markets there is no open bidding and offering of securities. Demand finds its own supply and the supply its own demand. The dealer buys a given security from one customer and sells it to another and neither of the two customers, nor their brokers know of others transaction. There is no public record of the transactions, no ticker or quotation service. Over the-counter markets provide facility of dealings to the securities of those corporations which do not wish to submit information required by the organised exchanges nor they wish to give wide publicity to the fluctuations in the values of their securities. In some cases the listing requirements of the organised markets prevent them from listing their issues either because they have too few shares or their shares are not widely distributed and are thus liable to manipulations and corners readily, and thus the existence of these markets becomes necessary for them. The business on these markets is carried on over the telephone and by telegraph. Thus though these markets do not serve the society in a formal way, but they form a definite and useful part of the security dealings.

(C) London Stock Exchange :—

The London Stock Exchange has had an interesting history. It was not untill 1801 that the Stock Exchange was established in London. Stock Exchange dealings were carried on even in 17th century but they were not organized. The business in early days was transacted in a Coffee house,

known as *New Jonathan's*. It was in the year 1773 that a group of brokers purchased control of one of the coffee houses and placed the inscription, "The Stock Exchange" over its door, where admission was accessible to all on a payment of six pence a day. The supervision was vested in a committee and the expenses were met by voluntary subscriptions. In course of time it was found necessary to erect a special building, the foundation of which was laid in 1801, and in 1802 by a deed of settlement of the Stock Exchange nine trustees and managers were appointed. The settlement also brought about a committee for general purposes.

In the year 1877, a Commission was appointed to enquire into the origin, objects, constitution and usage of the London Stock Exchange as also to determine the mode of conducting the business. After a searching enquiry and examination of evidences the Commission reported in 1878 and made the following recommendations :—

(*a*) the prohibition of all dealings before allotment.

(*b*) the establishment of a public functionary to pass upon requests to list new issues.

(*c*) the appointment of a small sub-committee of Exchange to enquire into the applications for membership.

(*d*) the granting of the necessary powers to the Committee of Stock Exchange over their members to restrain from extravagant speculation,

(*e*) the prohibition of the defaulters of the right to carry on business through other Exchange members.

(*f*) the appointment of a committee to authenticate the closing quotations and be responsible for their accuracy.

(*g*) the incorporation of the Exchange and the licensing of brokers.

Some of these recommendations were voluntarily accepted by the Exchange but no legislative attempt was made to put them into effect and no essential changes were made in the constitution. Since then there has been a remarkable growth of the London Stock Exchange in prestige and importance. When the Exchange opened its doors in 1802, it consisted of 55 members and 99 clerk but in 1864 the membership was increased to 1,100 and in 1878 it crossed the limit of 2,000. At the end of the century it was almost doubled. In 1910 the membership reached the high total of 5,125 members and 2,547 clerks. The rapid increase alarmed the Stock Exchange authorities and steps were taken to tighten up the regulations for admissions and as a result the present number of members amount to about 4,000, and 1900 clerks. Total share capital of the Exchange consists of £. 5,00,000.

By the middle of the 19th century, the London Stock Exchange had attained undisputed supermacy of the nation's security market. Throughout the second quarter of the last century, a number of provincial exchanges developed. But their importance was mainly confined in financing rail roads. Later on, the subsequent crash in rail road securities largely contributed to the decline of these provincial exchanges and as a consequeuce they lost much of their significance in the fifties and sixties of the last century and the London Stock Exchange came to dominate the security transactions of the entire nation. The following years were the years of consolidation of the London Stock Exchange, which under its present state of efficiency has achieved the position of a world Stock Market and ranks as a supreme institution for dealings in shares and securities on an international basis.

(i) Constitution and Administration :—

The London Stock Exchange is a voluntary unincorporated association. It was not established under a charter, nor by an Act of Parliament, nor under the Companies Act, but by a Deed of Settlement in 1802 which put the institution under dual control, that of the proprietors or shareholders represented by a body of nine "Trustees and Managers" and members represented by the "Committee for the general purposes" consisting of 30 members. The Stock Exchange is to all intents and purposes a proprietory club, the properietors of which are necessarily members, but the members of which were until lately not necessarily proprietors. It is owned by a Joint Stock Company the shares of which are held by members.

(a) The Trustees and Managers :—

The managers maintain the Stock Exchange building and equipment and for this purpose they fix the fees and subscription and collect them from members and clerks who are admitted by the members. The managers as the name indicates, do not manage the members but they manage the finances of the building as a property, its freehold and leasehold values. They also collect the necessary funds for the upkeep of the building and having made the necessary provisions for the upkeep and improvement of the property distribute the available balance in the shape of dividends. Though the first Trustees were appointed for life by the orginal Deeds of Settlement, three of them now retire every five years. Thus election to this position gives a permanence not enjoyed by the committee.

(b) The Committee for General purposes :—

On the other hand the committee for general purposes is entrusted with the regulation of business. Its duty is to provide facilities for the conduct of business and make necessary rules and regulations. The committee is also vested with the necessary power to admit a member. It decides all disputes and fixes the dates and number of holidays, issues official price lists and controls the various subsidiary departments of the exchange. In brief the committee carries on the internal management of the exchange. Its personel is elected every year in the month of March and members of at least five years standing are eligible for election. The committee exercises the disciplinary powers, powers of control and powers of suspension and expulsion of members. In the words of settlement constituting the Stock Exchange the committee "shall regulate the transaction of business and may make rules and regulations respecting the mode of conducting the ballot for the election of the committee and respecting the admission (which includes reelection, expulsion or suspension) of members and their clerks and the modes and conditions in and subject to which the business on the Stock Exchange shall be transacted, and the conduct of the persons transacting the same and generally for the good order and government of the members of the Stock Exchange, and may from time to time amend, alter or repeal such rules and regulations or any of them, and may make any new, amended or additional rules and regulations for the purposes aforesaid.

It virtually acts as the officer in command of the Stock Exchange. Their powers apart from the purse are unlimited.

This dual control indicates a very remarkable peculiarity in the constitution of the London Stock Exchange. There is on the one side a body of men—committee for General purposes—deciding who shall be admitted to membership, and on the other a quite distinct body—Trustees and Managers—laying down what each member shall pay for the privilege of admission.

The significance of these two bodies was quite noticeable when the shares of the exchange could be held by non-members but since the amendment by which shares can be held by members only, the dual control, on the part of shareholders (represented by managers) on the one hand and members (represented by the committee) has very much mitigated, since the two electing bodies are practically identical although the two administrative bodies may be quite distinct. But inspite of the fact that proprietors and members are now the same persons, the possibility of a conflict of interest has always been present. Some, for instance, may be more concerned in one capacity than in the other and while it is to the interest of the proprietors that dividends should be maximized, it is to the advantage of members—and of course of the public—that Stock Exchange services should be improved. This arrangement has been an object of criticism in the past. But now it is to be ended and the Stock Exchange is to be controlled by a single body representing both the proprietors and the members. This new piece of reform would raise the status of the Exchange, as such a committee would be in a much better position to deal with post-war problems and to consider general questions of professional status.

(ii) Membership :—

The London Stock Exchange has about 4,000 members. Strictly speaking there is no limit to the number of members, but the division of the 20,000 Stock Exchange shares in the ratio of three shares to each member (except in the case of clerks who are required to buy one share on becoming a member) sets a limit on the possible number of members. All applicants for membership must be not less than 21 years of age and must be natural born British subject, but the committee may in its "uncontrolled and uncontrollable discretion" admit as a member an applicant who has altogether abandoned his foreign nationality, has resided in the British Dominions for ten years, and has been naturalized within such dominions for five years or more. Persons who have been adjudicated insolvents are not allowed to join the membership of the Exchange unless they have paid 20/-s. in the £.

Applicants who have not served as clerks previously are required to obtain a nomination from a retiring member and pay an entrance fee of 600 guinies and buy at least three Stock Exchange Shares. They are admitted only when membership becomes vacant. They must be recommended by at least three members of atleast four years' standing and having a personal knowledge of the applicant. Each recommender must undertake to pay £. 500 to the creditors of the candidate in case the latter shall be declared a defaulter within four years from the date of admission.

Some elasticity in the number of the members of the Exchange is provided by permitting a few clerks to become members each year without obtaining the nomination of a retiring member or the representative of a deceased member. Such an applicant must have his name on the waiting list and must have served as a clerk for four years. His application is to be recommended only by two sureties who must undertake to pay £300 each in case of default. Such a member is required to buy only one Stock Exchange share. The clerks so admitted through the waiting list are not required to obtain a nomination but they become entitled to the right of nomination as soon as the liabilities of their sureties expire. Thus there are two classes of members. Those with the right of nominating successors and those who have no such right, unless after admission they purchase a nomination. The right of nomination is personal and non-transferable and cannot be exercised by a person who is expelled or who has applied for re-election but his application has been rejected, or who ceases to be a member under the rules relating to insolvency and other infringements of the committee's regulations.

A member of the Stock Exchange is not allowed to advertise for business purposes or to issue circulars or business communications to persons other than his own principals. He is not allowed to enter into Partnership with any non-member. Partnership with brokers and jobbers is also prohibited. The members are not allowed to have offices beyond the immediate vicinity of the Exchange. They are not allowed to be a member of any other Stock Exchange or other competing institutions nor be engaged in any other business. They are also prohibited from taking resort to law courts for the settlement of disputes arising out of or connected with the Stock Exchange business without the consent of the Committee. They are not allowed to carry on arbitrage operations unless permitted by the Stock Exchange.

Inspite of heavy fees a member is elected for one year only. Each year on re-election, a fresh signed contract is entered into that the member applies for admission, "upon the terms of and under, and subject in all respects to the rules and regulations of the Stock Exchange, which are now or hereafter may be for the time being in force." The election or re-election is entirely at the discretion of the Committee whose decisions are undisputed and unchallenged. This power enables the Committee to exercise a very real control over the conduct of its members and is an indication of the autocratic powers given to the Committee who is under no obligation to give to any applicant for re-election or admission any notice of the grounds or reasons on which his election has been refused.

Members of the Stock Exchange are allowed to employ a limited number of clerks which are divided into three classes, authorised, unauthorised and settling room clerks. Only authorised clerks are permitted to deal on behalf of their firms. The unauthorised clerks are not allowed to deal but may enter the Stock Exchange to collect prices and other information. The settling room clerks are not allowed to enter the floor of the Stock Exchange but are permitted to enter the settling room only to assist in the formalities of settlement. The total number of clerks that a member may have in the Stock Exchange is three, one of whom may be authorised and a member may have two settling room clerks, a firm of two or more brokers may have five clerks, two of whom may be authorised and in addition may have six settling room clerks. Members, however, may be employed as unauthorised clerks in excess of these numbers without limit and as authorised clerks in excess of these numbers with a limit of three for an individual member and five for a firm of two partners with an additional one for each partner in excess of two. The authorised clerk of a jobber member is not permitted to carry on business in any market other than in which his employer deals. The authorised clerks have to bear a distinctive badge and his employer is responsible for the proper use of the badge in accordance with the regulations.

(*a*) ***Brokers and Jobbers :—***

Unlike any other Stock Exchange in the world, members of the London Stock Exchange are officially divided into two groups of brokers and jobbers. The division is water-tight and no one member or a firm of brokers can act in both capacities at any time. Every member has to declare at the time of re-election every year whether he proposes to act as a broker or a jobber. A broker is a commission agent and acts for non-members only. He is not allowed to put through any business *i. e.* he cannot engage any other broker to carry on the business. But unlike New York Stock Exchange brokers at the London Stock Exchange can share commission with banks and country brokers. This is an important point when we realise that by far the largest firm of agents contributing to the Stock Exchange business in London are

joint stock banks who have separate security departments and with whom brokers share commission up to 50 per cent of the whole. On the other hand jobbers have no out side clients as they are not allowed to deal with the public. They deal with the brokers and amongst themselves. "It is their business to buy or sell any negotiable security on demand and to "carry" during the interval which elapses before they are able to "undo" their deal by a further and contrary transaction with some other party. They constitute therefore, the core and centre of the market and through their hands every transaction passes."[1] The jobber is essentially a "dealer" who is not allowed to deal with the public and unlike brokers who work for "commission," jobbers work for "profit". But at the same time a broker is not forbidden, strictly speaking, to buy and sell for his own account but he cannot make a regular business of dealing in a group of stocks for his own account as does the jobber. Moreover a broker may cross or match orders and act as a principal only through the books of a jobber who charges a small fee for this service. "From this difference of function arises a difference of interest. The broker acting for a mass of clients, each unit of which has his own needs and desires,will buy and sell shares of all kinds, industrial, mining, oil, gilt edged, rubber and whatever categories exist. The jobber has no outside pressure directing him in his dealings, and therefore as a rule, specialises in one market."[2] A jobber, thus is a professional speculator who specializes in a limited number of securities. He is always prepared to buy or sell except in very inactive securities when he would refuse to make a price and would ask the broker to disclose whether he is a buyer or a seller. Owing to his special knowledge, he is supposed to be an expert in judging the values of his securities and in making an estimate of the supply and demand for them at any moment. It is his study of the market which enables him to quote a price whenever desired by the brokers and due to which he is always prepared to buy or sell. Brokers, on the other hand, do not not specialize in any security. They are the expert agents of the public. By reason of their access to the market and their familiarity with the mechanism of trading, they are better able to deal with the jobbers as they are aware of the tricks of the market and with the tactics of the latter. "His skill and experience enables him to advice the clients with regard to the transactions which they undertake and to put his clients on equal bargaining terms with the jobber in carrying out these transactions. He serves, in effect as a kind of ring fence round the jobbers protecting the public from contact with dangerous machinery, dangerous of course, not from any moral weaknesses on the part of jobbers but because of the superior knowledge of the value of securities possessed by these experts would in many cases place the public at a disadvantage in dealing with them directly."[3]

It calls for a high degree of ability, resourcefulness, dexterity and calm judgment, in addition to considerable cash recources, to make a successful jobber. They are in a privileged position as all transactions must pass through them. The making of a price is his privilege, which when excercised carries with it the obligation to deal in certain amounts, if required. Sometimes jobbers are obliged to enter into transactions against their wishes. But as they can deal amongst themselves they can undo a bargain if two jobbers have exactly opposite bargains. A successful jobber has a huge turnover at a small profit and goes home with an "even book". While dealing with brokers, a jobber, like the American specialist quotes two prices. The

1 Lavington—English Capital Market.

2 Brooks—How the Stock Market really works

3 Lavington—English Capital Market.

lower price indicates the price at which he is prepared to buy and the higher the price at which he is willing to sell. The difference of the two prices represents the "jobbers turn" or his probable profit on the transactions. The main cost of the jobbers' work is the risk which he bears due to constant price fluctuations. The interval between the two prices quoted by the jobber varies with the size of the order, the activity of the security, the competition from other jobbers and the condition of their own books, as all these factors influence the risk the jobber assumes. If the security quoted by the jobber belongs to a very active group, a shorter period would be necessary for the jobber to carry the security and accordingly the smaller shall be the difference between the two prices and the smaller shall be his "turn". On the other hand, the more uncertain the fluctuation of prices which may occur during this interval, the wider would be the two prices and larger would be his turn. Besides, the significant factor that affects the interval between the two prices is the optimism or otherwise of the market. If there is a feeling of pessimism the difference is likly to be widend as the jobbers would like to make maximum proft to cover their future risks.

It is sometimes expressed that the jobber exacts a turn from the investor which is unnecessary and that if there were no jobbers and business were transacted directly the jobbers' turn would be eliminated, whilst it ts true that in certain securities where dealings are limited in number and there is practically no market, jobbers' intervention is sometimes a tax on dealings, which might otherwise be avoided. But at the same time it cannot be denied that the freedom of dealings in London as compared to other parts is very largely due to a system of jobbers or dealers and they thus render a very distinct public service. Besides, this rigid distinction between the members of the Exchange seems to be a necessity in view of the enormous business that is transacted at its floor. At the London Stock market more than 5,600 securities are quoted in the official price list and a large number of unquoted securities are also traded. In addition their existence provides a continuous maket, as jobbers are always willing to quote a price and are prepared to buy or sell. This in turn leads to an immediate execution of orders by the brokers who find a ready market at hand. Their existence also facilitates trading in many inactive securities for which they are also prepared to make a quotation.

The jobber system has been compared with the New York specialist system. It can also be compared with the odd-lot dealer and the floor trader, though a jobber occupies a much important place in London, than the odd-lot dealer and the floor dealer in New York. It has enabled London market to win and maintain its pre-eminent position as an international financial centre. "The system of jobbers often provides a barrier against violent price fluctuations. It enables sellers and buyers to carry through their transactions without undue delay. The results appear to justify the arrangement of jobbers as well as brokers.[1]

Brokers and jobbers on the London Stock Exchange perform certain additional functions in the marketing of the new issues. Brokers frequently advise the issuers regarding the terms of issue and assist in their allotment, as new issues are primarily distributed through the agency of brokers and banks which charge a small selling commission rather than by an organisation of investment bankers, as in America. Jobbers are also employed to retail new issues and frequently play an important part by underwriting a portion of the issue to be sold to the public through brokers and banks.

1 Armstrong—The Book of the Stock Exchange,

Classification of members on the Bombay Stock Exchange :—

Unlike London Stock Exchange there does not exist any official classification of members into brokers and jobbers at the Bombay Stock Exchange. This is due to the fact that membership of the Exchange is not so wide and the volume of transactions not so immense as we find at the London Stock Exchange. We have about 400 members as compared to London Exchange where membership has reached a figure of 4,000, ten times more than at the Bombay Stock Exchange. Bombay is mainly a national market while London occupies the position of an international market which accounts for the huge business that is transacted at its floor. At the Bombay Stock Exchange if some of the members were to confine themselves to jobbing only, the profit would not be worth the risk due to comparatively lesser turnover. Jobbing implies huge turnover at a comparatively lesser margin of profit Thus it has not been found in the interest of members to divide themselves into brokers and jobbers. But at the same time the members are unofficially divided into two classes :—

(a) Commission Brokers :—

Unlike New York Stock Exchange brokers at the Bombay Stock Exchange do not have any branches. They simply have a number of sub-brokers who canvass business for them. A minimum scale of brokerage is fixed both for members and non-members but they are allowed to charge a lesser commission from members. Unlike the practice of the New York Stock Exchange put-through business *i. e.*, bnsiness by a member through another member is permitted at the Bombay Stock Exchange. But such business forms a very small proportion of total business. As a matter of fact a few well-known brokers with established reputations who do not wish to take market risk, put their business through other brokers, but the public is not discriminated against as the same minimum brokerage is charged to the investor, the difference being that the amount of brokerage is shared between themselves by two members in a certain agreed proportions.

(b) Tarawaniwala .—

He is a dealer and deals in his own account and not on behalf of the clients. He can be compared with the specialist of New York as he generally specializes in one or two securities only and carries on bying and selling at a particular post. His method of dealing resembles to a jobber of London Stock Exchange. But there is an important difference between the two. Unlike the jobber in London, the Bombay tarawaniwala does not scrupulously make his books even before the close of the session every day. He does not stand in the market to quote two prices. The London jobber, when once makes a price is bound to accept a stipulated amount offered or asked for. Besides, the tarawaniwala can also act as a commission broker.

The division of members between brokers and tarawaniwala is not at all rigid and each member is allowed to act as a broker and can also deal at the same time, on his own account. This is open to a serious abuse as when a member acts as a broker in one transaction and as a dealer in another transaction, he may act against the interest of his client as at times he may dispose of his own holdings to his clients at inflated prices or may buy for himself the investment of his clients at lower prices. The system of tarawaniwala, who in practice is described as a parasite, is also open to a grave abuse. "The tarawaniwala is always an unnecessary obstruction to the fair execution of clientele business and often a toll gatheror of a size incommensurate with the risks he runs. Besides, as all the operations of these dealers

are essentially for a settlement of differences, with absolutely no intention to pay for a single share sold, the size of their operations has no reference to the value of the stock sold or purchased and consequently the operations are limited only to the avidity of the dealers."[1] What actually happens is that if a broker has a large order to purchase certain securities, the tarawaniwala bids up the market in those securities absorbing all the floating supply at that price knowing quite well that the broker must come to him to execute his order. He then sells his purchases to the broker at a profit. This type of dealing has led the broker to adopt a method that attempts to foil the manipulations of the tarawaniwalas. The broker distributes a large order to a number of other brokers in order to avoid the bidding up by the tarawaniwala.

A number of suggestions have been made from time to time to remove this defect. A remedy which has been suggested is to divide the members into two water-tight compartments of brokers and dealers. A broker should not be allowed to encroach upon the business of a dealer or vice versa. On division the brokers would become disinterested middlemen and can inspire confidence in the minds of their customers and their advice will then be looked upon with much reliance, than is the case when he is both a broker and the dealer. Though it is quite wholesome provision but does not seem to be practicable for two reasons. Firstly at the Bombay Stock Exchange a major portion of the business transacted is on account of the members. Secondly the volume of business does not justify this division. Atlay Committee in this connectien observed that "though it is generally admitted that this change is disrable, it is generally admitted that at present it would not be feasible in practice. This system exists in the London Stock Exchange alone, and though it offers such great facilities in business that orders are, for this reason at times sent to London from the provinces or the continent for execution, it is a system which is possible only where the market is very large. There is at present not sufficient business in Bombay though we strongly recommend this change, should the Bombay market ever grow sufficiently to make this division feasible."[2] Thus though division of members into brokers and dealers officially cannot be recommended, it must be left at the option of the members whether they wish to act as a broker or a dealer. At the beginning of the year every member should declare whether he wishes to act as a broker or a dealer or in dual capacity and a list of such members must be available to the public which shall be at liberty to choose any broker it pleases.

Like the jobber of the London Stock Exchange a tarawaniwala also performs an important purpose by providing a ready market in certain securities and as such unless a jobber system is instituted their abolition cannot be suggested. But at the same time a restriction must be placed on their business. The Morison Committee in its report recommended that a bid or offer of the stock in the market where no amount is stated, shall be binding to the amount of Rs. 10,000 at the bargain price calculated to the amount nearest this sum. This was meant to check the tarawaniwala from making either a false bid or a false offer and then backing out of it. It was believed that this would be sufficient to stop the manipulation and the recommendation was embodied by the Exchange in its rules. But the suggestion is of little practical value as the tarawaniwala deals in much greater amounts in very active securities and there still exists the practice of bidding the market against the broker. What is needed is to raise the limit from

1. Mr. A. D. Shroff in his evidence before the Morison Committee.
2. Atlay Committee Report.

Rs. 10,000 to substantially high figure, say Rs. 25,000 or 30,000 and their business must be properly defined.

(ii) Method of Trading :—

Both cash as well as forward business is allowed on the floor of the London Stock Exchange. Generally government securities are dealt in for "Ready Delivery" in which case the delivery and payment take place on the day following the day of the transaction. But the vast majority of the transactions are, however, for the account and a system of fortnightly settlement has been adopted. This is an important variance from the practice on the New York Exchange where the settlement is usually made on the second full business day following the transaction. Option dealings are also permitted at the London Stock Exchange though they do not find a place amongst the bargains at any other Stock Exchange.

Floor of the Exchange :—After the receipt of the orders the broker approaches a jobber who deals in the securities, the broker is required to sell or buy and would ask the jobber to quote the price without indicating that he is a buyer or a seller. It is in this respect that the practice of the London Stock Exchange differs from other exchanges of the world. The jobber when asked to give a quotation always names two prices one his buying and the other his selling price. At the smaller he agrees to buy while at the higher he agrees to sell. Thus when challenged to deal he does not know whether the broker is a buyer or a seller and consequently from this somewhat "blind" mode of dealing he is forced to make a proper quotation, for when once a jobber has made a price he is bound to accept any bargain upto £ 1,000 stocks if no quantity is previously named provided his price is immediately accepted. The difference between the two prices is called the jobber's turn or the turn of the market and to it the jobber is supposed to look for his profit. If the quotation of the jobber is accepted the broker would declare "I buy" or sell 100 Southern Deferreds and the transaction is said to be completed.

Inside the offices :—When a deal between the two members is effected the bargain is entered by each of them in a small book generally carried in the pocket called the jobbing book. After the close of the business, when the brokers return to their offices, the clerks of the office prepare contract notes from the particulars mentioned in the jobbing book. The bargains are also entered in the Checking Book which is taken next morning to be settling room where checking of bargains is effected through the agency of properly authorised clerks. Jobbing book is then handed over to the clerk who enters the bargains into Journal and makes the necessary calculations as to cost and the price to be realised, adds the necessary amount of government transfer stamp and also the commission payable. When the contract clerk has completed his duty his calculations are compared with those of Journal entries and the work is then checked and the completed contract notes to which the necessary stamps are affixed are sent to the clients. A contract note contains all particulars regarding the date of the transaction, the name, amount and prices of security bought or sold and the amount of broker's commission, the government stamp duties as also necessary registration fees. The contract note also states the date when money is payable namely the date of the Stock Exchange fortnightly settlement. Until that time the client enjoys credit and though he has not paid for the security purchased nor has received its possession, he can sell it before the settlement day and if the price has risen would pocket the profit. If sale is made within the settlement day, the broker, at his discretion may charge only one commission for the two operations.

The Settlement :—The adjustment of each fortnightly settlement lasts for four days and during that time every transaction is closed either to be settled and paid for, "differenced" or carried over to next settlement.

The first day is called the "Contango day" or making up day when members who wish to postpone the settlement of their customers' bargains arrange for their carry over. The second day is called the "name or ticket day" when the necessary tickets showing the name and amount of the security purchased, the name, address and description of the transfree the price at which shares were bought and the date of contract, are prepared by the purchaser. This ticket is the demand for the delivery of shares and securities contracted to be sold. On the third day which is termed as Intermediate Day, these tickets are passed to the seller and if the selling member has purchased the securities from the other member during the account he will endorse on the ticket the name of the member from whom he has purchased and pass the ticket on. In this way the ticket would ultimately reach the member whose client actually has the securities and intends to deliver them. The process is called the "trace" and resemble in general to the clearing system in New York. This process is facilitated by the operation of the settling department. On contago day each member prepares a clearing sheet for each security in which he has dealt. From these sheets it is possible for the settling department to set off the debits and credits and trace the bargain. On the last day, known as "Pay Day" the securities are taken up and paid for and "differences" are adjusted. Ten days are allowed for the delivery of "Registered Securities."

Carry Over or Contango Transactions :—

Carry-over facilities are also provided at the London Stock Exchange. Carry over is effected by a double transactions viz. a sale of securities for cash and their repurchase at the same price for the next settlement. Such transactions are effected at the making-up prices and the difference between the contract price and making-up price represents the customer's profit or loss with which he is credited or debited in the books of the broker. For the privilege of carrying over a purchase the customer usually has to pay a small charge known as Contango rate or "continuation rate" which is based upon the rate of interest prevalent in the market.

But the position as regards "Carry Over" or "Budla" differs in some respects from the practice of Bombay Stock Exchange where simultaneous trading both in the ending and ensuing settlement, is allowed for four days at the end of each monthly settlement. Budla is not made at the making-up price as in London, but during any of these four "Budla days" when regular business is also transacted and shares are quoted separately for both the settlement, the broker with a "long" position may find out a broker with a "short" position in the same scrip and effect with him simultaneous sale in the current settlement and purchase for the ensuing settlement at the rate then prevailing in the market for that scrip. In effect he sells to the other broker shares for the current settlement and buys from him the same shares for the ensuing settlement at a small difference in price.

(D) The Paris Stock Exchange :—

The Paris Stock Exchange is divided into two markets, the Parquet or the official exchange and the coulisse or the Curb Exchange. The Parquet is located in a building and its members are termed as stock brokers while trading on the coulisse takes place on the verandah or steps of Paris Bourse

and members are called as Bankers. Besides, there is also an unorganised market called, Marche Horscote or free market and its members are termed as curb brokers.

(i) Administration :—

The full name of Paris Stock Exchange is ***Compagnie des Agents de Change.*** It occupies a monopoly which operates under the close control of the French Government and all its practices and regulations have been enacted into law. The executive authority is vested in a syndicate chamber consisting of eight members. The chamber is authorised to enforce rules, take disciplinary action prevent or reconcile disputes between members and represent the exchange whenever necessary. All the powers granted to the chamber are subject to approval of the Minister of Finance of the Republic of France. The chamber has a right to examine the books of any member and must do so on the request of any three members. It is also empowered to censor, fine, suspend or expel any member subject to the approval of a majority of members attending the trial.

(ii) Membership :—

Membership of Parquet is limited to 70. Members were formally appointed by the president of Republic of France due to comprehensive system of regulation of the Parquet by the Government. Every member has a property right which entitles him to appoint a successor but the successor so appointed must have served as apprenticeship with either a broker or a financial or mercantile institution in France. Applications are received by the Chamber and transmitted to the Minister of Finance. A member may have silent partners who are allowed to share in the profits. They are liable to the amount of their capital investment, if there happens to be a loss. A member must contribute atleast one fourth capital from his own resources. Every member is required to deposit a substantial bond with the Government and again one fourth of the value of the bond must come from the resources of the member.

A member is allowed to employ six authorised clerks. He can employ remisiers or sub-brokers to canvass business. They are paid a part of the commission received from constituents introduced by them. Banks are also allowed to act as remisiers and receive commission of business introduced by them. It is a practice to employ canvassors for the purpose of securing business.

A member is subject to a number of restrictions. He is not allowed to advise the investors nor authorised to deal in unlisted securities. Such orders are executed by "Bankers" on the coulisse. They are not permitted to buy or sell on their own account, a rule that is rigidly enforced.

The constitution of the Parquet thus indicates a dominating power of the French Government in the affairs of the Exchange. Even the applications for membership are sanctioned by the Ministers of France. In many respects the Chamber is simply an advisory body. It is in this respect that it differs from the other Stock Exchanges of the world.

(iii) The Principal of Solidarite :—

It is a unique feature of the Paris Stock Exchange. All the members are collectively responsible for the solvency of each member. If a member fails to fulfil the obligations to his client the obligation is to be met by other members from the general funds. This collective responsibility is called the

Principle of Solidarite. It is accepted voluntarily and is not legally enforceable by an outsider. This principle has not been adopted in their constitutions by other Stock Exchanges of the world. But in practice it has always been found desirable and has been adopted from time to time. For example during the crisis of Hatrey Group in 1929 the liabilities of the public of defaulting members were met in full out of a fund specially raised for that purpose by voluntary contributions from the members. Similarly during the crisis of Currimbhoy group on the Bombay Stock Exchange in 1933 all liabilites of members to the public were met out of the common fund.

As compared to other Stock Exchanges, the special characteristic of the Parquet is the existence of Government monopoly in the control and regulation of the Stock Exchange. The transferable value of membership also forms a special feature at this exchange as the appointment of a member carries with it a property right. Besides, the *principle of solidarite* distinguishes it from other exchanges and forms an important part of the business of the Stock Exchange.

(iv) Method of Trading :—

Besides the existence of cash and future trading, option trading also comprises a most important part of the trading on the Paris Stock Exchange. Cash transactions are settled by an almost immediate delivery of cash and securities. If delivery is delayed for any reason and is not made within ten working days the purchaser may demand that the securities be bought by the chamber against the sellers account. Brokers are also allowed to proceed against their customers in the same way, *i. e.* may buy-in or sell-out securities to complete the order.

Transactions for the "Account" are to be terminated at the semi-monthly settlement date. In case of firm transactions as opposed to option trading, delivery and payment on the settlement day are obligatory, although by agreement the transactions may be carried over. On the other hand options are conditional and give a right to either fulfil the contract or to repudiate it. They cannot be extended beyond a period of 2½ months. Transactions in the term or future market must be cleared through the Central Clearing House, operated by the Syndical Chamber. Settlement, like London Stock Exchange, is semi-monthly beginning on the 15th and the last day of the month. The mid-monthly settlement extends over a period of four days and that at the end of the month over a period of five days. On the first day of the settlement, accounts of the speculators are either carried over or liquidated. On the second and third days brokers and intermediaries prepare accounts and establish security and money balances. On the fourth day securities are delivered or the debit balances are settled and on the fifth day final delivery and payment take place. Deliveries of actual certificates are rarely made between brokers. Instead, deposit receipts are issued by the chamber through its clearing agency. This practice is based on an almost universal practice of security owners in France of keeping their securities deposited in banks. As the number of brokers is limited to seventy, settlement is rendered very simple. The sales and purchases are made on the continuation day at the clearing price fixed by the syndical chamber.

The only peculiar feature in this respect is the privilege of discounting by which the purchaser is allowed to obtain delivery before the settlement day by tendering the money. This is not permitted at any Stock Exchange of the world.

Effect of War :—

The present war has affected the Stock Exchange adversely. The collapse of France has brought about a complete change in the French Stock Exchange. The Paris Stock Exchange which has been for decades the leading and the most vigourous fiinacial centre of the continent has fallen to a level of a small provincial market. The Paris Bourse is no longer a barometer of business activity, an indicator to the optimism or pessimism of business circles or an open field for investment and its future solely depends on the political future of France.

The Coulisse or Curb market :—

The Coulisse occupies a place similar to that occupied by the Curb Exchange in New York. Securities not listed on the Parquet can be traded here. Those listed on the Parquet can be dealt with only when the Coulissers obtain an official statement or counter signature from a stock broker and for this service the stock broker receives a part of the commission.

The number of Coulissers is unlimited. Any one with sufficient capital to meet the requirements of business may transact business on the coulissee.

As regards dealing in coulissee securities, the coulissers have considerable freedom. They possess the necessary right to engage in personal transaction regardless of orders received from their clients in the same securities. Besides they may directly effect carry over transactions for their clients at the average rate plus commission and are allowed to obtain capital or stock for this purpose at their own risk. They are required, however, to notify their clients of the execution of the order the same day and they must require a margin deposit with orders.

The importance of the coulissee is indicated by the fact that a much larger volume of business is handled here than on the Parquet. This is due to the fact that the activities of the curb brokers are not so restricted regarding the securities dealt in as those of the official *agents de change*. Moreover the curb brokers are less exacting in their demands regarding margins and other financial arrangements.

The Marche Hors Cote or Free Market :—

The free market is largely in the hands of Coulissee bankers. Dealings are effected in certain securities from the time of their issue till the time they are quoted on one of the other markets as also in other inactive securities of small companies. Prior to 1929 this market was practically unorganised and unregulated. It is only in 1929 that the Gevernment and the Coulissee bankers by their co-operation formulated certain regulations. Certain data regarding the stocks to be traded must be filed with the syndicate of bankers, at least three days before admission.

(E). Berlin Stock Exchange :—

Before any exchange can be established in Germany its rules and regulations must be approved and sanctioned by the Government. The regulations of an exchange must be based on the German Federal Law and in case they are approved the exchange would work under the supervision of a state commissioner, who would work in cooperation with the chamber of Industry and Commerce of Berlin a semi-Government organizatton.

The management of the Berlin Stock Exchange is in the hands of a board of Directors but is carried on subject to the supervision of the Prussian State Commissioner and the Chamber of Industry and Commerce. The Directorate consists of 21 members of whom 17 are chosen from amongst the

members and four are appointed by the Berlin Chamber of Commerce. The Board carries on its operations through a number of sub-committees.

(i) Membership :—

An applicant for membership must be recommended by three other members of at least three years standing. Such guaranteeing members must deposit a bond ot 500 R. M. each in cash or securities with the Chamber of Industry and Commerce. Clerks of the permanent members are allowed to enter the exchange for the transaction of business on behalf of their employers. Admission without the right of trading is also granted to press representatives and occasionally to other people on the recommendation of a permanent member. A person convicted of fraudulent bankruptcy or adjudicated an insolvent or deprived of civil rights is not eligible for membership. The members of the exchange may be divided into three classes, Sworn brokers, Free brokers and other members.

Sworn brokers are small government officials handling transactions for others on a commission basis. They are appointed by the Lord Lieutenant of the Province of Bradenberg after consulting the Chamber of Industry and Commerce and the Chamber of brokers. They are above 100 in number and each is assigned a certain number of securities frcm one to three according to the activity of each by the Chamber of Commerce and their function is to negotiate transactions in those securities and to fix their prices jointly with one other broker assigned to the same security. Such brokers are prohibited from engaging in any speculative activities and are not allowed to carry on any business other than that of brokerage. Their books are liable to inspection by Chamber of brokers and State Commissioners. These brokers do not maintain their offices to take orders from the banks which play an important part in the financing of Industries in Germany. Collecting of orders and their execution form part of the functions of large commercial banks in Germany.

The free brokers on the other hand get their orders executed through Sworn brokers. The majority of the members are in the third class. They are not subject to any particular restrictions and might more properly be called *Visitors*. They are mainly the representatives of banks. Many of them rarely appear at the Exchange but have their orders executed by the brokers.

(ii) Method of Trading :—

At the Berlin Stock Exchange trading is completely dominated by the commercial banks, which transact far the greater part of commission business in securities. In addition to cash business, which requires settlement to be completed two days after the date of execution forward business also takes place at the floor of the exchange. A number of unlisted securities are also dealt in at the unofficial market and the transactions are settled two days after the date of the contract. Future trading is permitted only in the securities of those companies who have a capital of atleast 10 million R. M. and such contracts are made only in minimum contracts of 6,000 R. M, or multiples thereof. All dealings are based on settlements to be made at the and of the month.

There is a predominence of bearer securities which facilitate the settlement of business and avoids all formalities regarding transfers. The transactions other than for cash are settled, through the machinery of the clearing house. The ***Liquidations Kasse*** acts as the clearing agency of the Term Market. The settlement is completed in five days. First day (3rd day before the end of the month) is the declaration of options. On the second day lists

of transactions are delivered by the brokers while on the third day, known as the Ticket day, Delivery tickets are distributed to the parties concerned. Fourth day is the day for delivery and payment and it is on the fifth day that the payment of differences in the making-up price is effected.

The work is further facilitated by the ***Effekten-Giro Depot*** (Security deposit and clearing department) of the ***Kassen Verem.*** This department receives securities on deposit from the banks and Stock Exchange firms of Berlin and through them for many private investors throughout Germany and the world. This department eliminates much of the physical transfer of certificates which are automatically shifted from one name to another by this department. All the dealers of the Exchange are the members of the clearing corporation which requires every member to submit a daily report of all term transactions entered by them. Each member's balance with the corporation is then credited or debited and in this way the position of each member on each trading day is known. This provides a check on the condition of members and to a certain extent the evils of term settlement are eliminated. A greater portion of the business is transacted through banks where securities are left for safe custody. Banks receive a large number of orders and act as commission brokers and thus are enabled to balance off the bull and the bear accounts and allocate sufficient credit to finance the balance. The client is required to maintain a sufficient margin and is allowed credit through Report and Lombard Loans. Lombards are ordinary security collateral loans while ***Reports*** are strictly Stock Exchange Loans to brokers from one settlement to another. There are however some money brokers who lend to individual speculators among the members of the Stock Exchange. They get their funds either from their own capital or from collateral loans at the banks.

CHAPTER IX

INSTITUTIONAL INVESTORS.

(Investment Trusts, Banks and Insurance Companies)

In the Long-term capital market a useful service is performed by *Institutional investors* and Investment Trust is one of recent origin. An Investment Trust is a Joint Stock Company which sells its shares and debentures to the public like a corporation and employs the proceeds thereof in the purchase of a considerable number of investments—gilt-edge, semi-gilt-edge and industrials. The word trust should not be taken to mean any trustee relationship between the investment trust company and its shareholders ; it is a financial institution run for the benefit of its shareholders, being capitalized on the normal basis of public companies. They issue their share capital by the normal method of *prospectus issue* and once the shares have been subscribed, the holder has no call on the company to redeem them and like an Ordinary Joint Stock Public Company must get his Stock Broker to find him a buyer in the market.

An investment trust is a useful link between the investing public and those who need capital *i, e.* the government, public bodies and companies. A primary investor is either too conservative or too rash or he is both by turn. An investment which at a particular time is good may cease to be sound and *vice versa* with changes in the economic outlook. Constant watch over the situation is required as well as a machinery for securing information with regard to investments. Experience in the selection of investments is also a valuable quality which the average investor cannot hope to possess in a sufficient measure. Apart from all these the investment trusts permit the spreading out of risks over various classes of investments of various industries and trade and in addition provide opportunities for the small investor to invest overseas. Thus by this diversification of investments the weakness in one direction whether it is temporary or is the result of one of those periodic cycles noticeable in every trade and industry, would not hit either the income or the capital asset of the concern too hard. Economically the investment trust involves some element of banking and partakes some aspects of insurance.

Principles of Working :—

The first essential of a sound investment trust is able management. The directorate of the trust should consist of fully qualified men of undoubted standing and repute in the financial world and should be composed of people who devote their whole business lives to the study of investments and their prospects and are assisted by association with the leading figures of financial world and by being able a command the services of stock brokers, statisticians and other experts, are constantly in touch with market opinions and with sources of information in all the chief centres of trade and industry.

The management of an investment trust company should be conservative in outlook. They should not invest the funds of the trust in any security which they will not be prepared to purchase for themselves and they should not buy such securities as they would not be able to hold indefinitely. It is on these two principles that the success of an investment trust depends.

Besides the risks should be so distributed over a wide sphere of industrials so that in no industry more than a very small proportion of its total investment funds may be invested. This feature is to be guarded against more so in India where the management of industrial and commercial concerns is in the hands of a few business houses and there is always the temptation for the trust managers to invest the trust funds rather lavishly in those concerns in which they are directly or indirectly interested.

The Directors of the investment trusts are also vested with wide borrowing powers so as to enable them to collect funds apart from its share capital, on the basis of bonds with a view to distribute the capital obtained by the issue of shares, bonds and debentures over a wide field of investments. The first and foremost consideration for an institution of this type is to build up huge reserves so as to be able to take up more risk. Thus a safe margin should be found out between the borrowing rates and the yield on investments not only to cover expenses but to give some return on the shares and to build up the reserves. The expenses of the company must not exceed a very small percentage on capital and reserves.

Advent of the Investment Trust Movement in India :—

Of late the development of trust companies, has been confined to Great Britain and the U. S. A. In England the trust movement has been for many years past (first of them having been formed, according to late Mr. Ellis Powells' Evolution of the money market) in 1863 a very prominent feature of Joint Stock enterprise. The earliest investment trust companies in America were developed from Mortgage Companies whose business was to lend money on mortgage to farmers in America and Canada. On the decline of new mortgage business, these companies invested their funds in railroad bonds and foreign loans, and that too mostly in fixed interest securities abroad giving a higher return than could be obtained in the home market. A rapid flotation of these trusts has taken place in the period between 1925-30 due to a risk in the common stock prices in Wall Street.

In India the coming in of the investment trust is of very recent origin, the first of them having been formed in 1933. Till then the absence of these trusts may be traced to many causes, chief of them may be summarized as under :—

(*i*) The Joint Stock enterprise in the country has not been developed to the same extent as in Europe and America and the amount of the country's wealth invested in Joint Stock concerns is relatively small. Thus there was not a sufficiently wide field over which an investment trust could spread its investments.

(*ii*) The large firms of managing agents have been averse to the establishment of investment trusts, whose constant vigilance over the affairs of the company was not always helpful or welcome to them.

(*iii*) It was not easy for investment trust companies to raise the required capital, because investors from time to time lost their confidence in the Joint Stock enterprise on account of company failures in 1913-14 and later in 1921-22.

(*iv*) An investment trust company was subject to two super taxes—one on its own profits and the other on the profits of those companies in which it held investments. However, the Government of India in 1933 exempted from super-tax so much of the income of any investment trust company as is derived from dividends paid by any other company which has paid or will pay super-tax in respect of profits out of which dividends have been paid.

In India the first Institution of this kind known as the Industrial Investment Trust Ltd. was formed by the well known firm of brokers, Messrs. Prem Chand Roy Chand and Sons of Bombay. But since then a need has been felt for the establishment of such institutions which provide a media for the investments of the small savings of the individuals with minimum risks to them. Such institutions are very necessary for the mofussil investors as it is difficult for them to keep in touch with the prevailing market conditions to protect their investments. Thus gradually the movement developed in India and the example of Messrs. Prem Chand Roy Chand and Sons was followed by others. The New India Investment Corporation Ltd. sponsered by the well known business house of Calcutta, Messrs. Ram Dutt Ram Kishan Das and Birds' Investments Ltd., under the aegis of Messrs. Bird & Co., and P. W. Heilgers & Co., were registered in 1936. Then came in 1937 the Investment Corporation of India, Ltd. formed by Messrs. Tata.

The period following the outbreak of the present war provided an opportune time for the formation of a number of such institutions. The war efforts in India released a flood of purchasing power. While there may be considerable difference of opinion as to whether such has increased the national income of the country as a whole, few will disagree that the increased purchasing power mostly accumulated in the hands of those who even in normal times were in a position to save a substantial portion of their incomes. This is borne out to a certain extent by the sustained investment demand for stocks and shares, bullion and commodities and the progressively rapid increase in deposits with banks. Indeed the volume of funds awaiting investment has been so large that the existing outlets were found inadequate as is evident by the keen bidding for stocks and shares and commodities. Any sound and well planned new openings to absorb the large volume of funds have therefore been welcomed. There have been a large number of new flotations but most of them belonged to the type which did not provide enough scope for that class of investors who prefer safety first in respect of their capital and an assured regular income. This has been responsible for the formation of a large number of investment trust companies during this period after Sept., 1943.

All the investment trusts so far organized in this country fufil the main functions of such institutions ; and some of them provide a welcome departure from the beaten track followed by such institutions, in as much as they intend to promote, underwrite and finance new industrial ventures which are assured of a good fortune and thereby to promote industrialization of the country. They also propose to assist existing industries which desire to increase their present productive capacity. A few, holding orthodox views may contend that this is not one of the main functions of a trust company and that it comes more within the sphere of industrial bank, rather than of a trust company. But considering the peculiar conditions obtaining in India, the vast scope and the pressing need for industries, any wise move in this direction deserves to be commended. Where one of the objects of an investment trust is the encouragement of new industries, it certainly entails some risk, but it is a risk worth taking, particularly as it promises to offer a more remunerative field of activities as compared with the restricted activities of those which confine themselves only to buying and selling of scrips that are regular dividend payers.

The establishment of a number of investment trusts during the two years (1943 and 1944) is a very welcome feature as it will not only reduce the pressure of inflationary tendencies in the country by opening an outlet for the excess purchasing power, but shall also have a steadying and beneficial effect on the prices of stock exchange securities. In addition it will provide a source of industrial finance to industries and would further assist the

concerns at times when they need additional capital by the issue of preference shares or debentures, at the same time providing a source of investment for the primary investor who is provided with the services of expert selection and management which he could not obtain by himself. The operations of the investment trust will enrich the Indian money market and will fill up the gap, which is all too noticeable in its present organisation. An investment trust if properly organized might be in a position to attract considerable capital abroad by offering its own intermediate guarantee which is lacking now.

Investment in gilt and semi-gilt securities although safe so far as capital is concerned, offer very low yields at the present time. In the same way investments in industrial concerns while offering a somewhat higher return carry the risk of capital depreciation, particularly when an investment is made in one concern or even in one industry. The requirements of any sound investments are *(a)* steady and moderate income and *(b)* safety of capital with reasonable prospects of appreciation and an investment trust by compiling a carefully selected and well-balanced port folio minimises the risk of capital loss while at the same time setting out to offer to its shareholders steady and moderate return combined with a reasonable prospect of capital appreciation.

Management and Unit or Fixed Trust distinguished :—

The investment trust discussed above is known as *Management Trust* because the management of such trusts have full power subject to the conditions contained in the Articles of Association to control the investment policy of the institution. The Unit Trust on the other hand, is an investment institution, in which the managers, having chosen a list of investments and published it, undertake to make no alteration in it over a period of years, unless any of them failed to pay a dividend in which case the managers are bound to sell the defaulter. In an Unit Trust, the holder as distinct from the shareholders in the *Management Trust*, owns an interest not in the management company but in the actual stocks and shares which constitute the trust fund. In an Unit Trust the managers purchase a group of securities which are lodged with the trustees who issue to the investor a certificate which represents a part ownership, proportionate to the amount of the investment in the group of securities. All dividends, bonus and rights received by the trustees on the underlying securities are added to Trust Fund and are available for distribution to the Unit holders. A Unit Trust is thus a pool of certain specified shares and unit holder, right from the start, knows what shares of public companies the unit has bought, represents. There is no market to sell out the sub-units of an Unit Trust. They can only be disposed of by selling them back to the managers of the trust, and the price at which such units are purchased is calculated by dividing the assets of the trusts, valued at the Stock Exchange buying prices of the day, by the number of units in issue less any expenses of realization, as a part of the investment is to be sold out to find out the necessary money for repayment. While a management trust is an ordinary limited company subject to the Companies Act and as such its shareholders may sell their holdings to any buyer on the Stock Exchange and the price paid to the buyer may not correspond to the proportionate value of the combined investments of the trusts.

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In India the first Institution of this kind known as the Industrial Investment Trust Ltd. was formed by the well known firm of brokers, Messrs. Prem Chand Roy Chand and Sons of Bombay. But since then a need has been felt for the establishment of such institutions which provide a media for the investments of the small savings of the individuals with minimum risks to them. Such institutions are very necessary for the mofussil investors as it is difficult for them to keep in touch with the prevailing market conditions to protect their investments. Thus gradually the movement developed in India and the example of Messrs. Prem Chand Roy Chand and Sons was followed by others. The New India Investment Corporation Ltd. sponsered by the well known business house of Calcutta, Messrs. Ram Dutt Ram Kishan Das and Birds' Investments Ltd., under the aegis of Messrs. Bird & Co., and P. W. Heilgers & Co., were registered in 1936. Then came in 1937 the Investment Corporation of India, Ltd. formed by Messrs. Tata.

The period following the outbreak of the present war provided an opportune time for the formation of a number of such institutions. The war efforts in India released a flood of purchasing power. While there may be considerable difference of opinion as to whether such has increased the national income of the country as a whole, few will disagree that the increased purchasing power mostly accumulated in the hands of those who even in normal times were in a position to save a substantial portion of their incomes. This is borne out to a certain extent by the sustained investment demand for stocks and shares, bullion and commodities and the progressively rapid increase in deposits with banks. Indeed the volume of funds awaiting investment has been so large that the existing outlets were found inadequate as is evident by the keen bidding for stocks and shares and commodities. Any sound and well planned new openings to absorb the large volume of funds have therefore been welcomed. There have been a large number of new flotations but most of them belonged to the type which did not provide enough scope for that class of investors who prefer safety first in respect of their capital and an assured regular income. This has been responsible for the formation of a large number of investment trust companies during this period after Sept., 1943.

All the investment trusts so far organized in this country fufil the main functions of such institutions ; and some of them provide a welcome departure from the beaten track followed by such institutions, in as much as they intend to promote, underwrite and finance new industrial ventures which are assured of a good fortune and thereby to promote industrialization of the country. They also propose to assist existing industries which desire to increase their present productive capacity. A few, holding orthodox views may contend that this is not one of the main functions of a trust company and that it comes more within the sphere of industrial bank, rather than of a trust company. But considering the peculiar conditions obtaining in India, the vast scope and the pressing need for industries, any wise move in this direction deserves to be commended. Where one of the objects of an investment trust is the encouragement of new industries, it certainly entails some risk, but it is a risk worth taking, particularly as it promises to offer a more remunerative field of activities as compared with the restricted activities of those which confine themselves only to buying and selling of scrips that are regular dividend payers.

The establishment of a number of investment trusts during the two years (1943 and 1944) is a very welcome feature as it will not only reduce the pressure of inflationary tendencies in the country by opening an outlet for the excess purchasing power, but shall also have a steadying and beneficial effect on the prices of stock exchange securities. In addition it will provide ... of industrial finance to industries and would further assist the

concerns at times when they need additional capital by the issue of preference shares or debentures, at the same time providing a source of investment for the primary investor who is provided with the services of expert selection and management which he could not obtain by himself. The operations of the investment trust will enrich the Indian money market and will fill up the gap, which is all too noticeable in its present organisation. An investment trust if properly organized might be in a position to attract considerable capital abroad by offering its own intermediate guarantee which is lacking now.

Investment in gilt and semi-gilt securities although safe so far as capital is concerned, offer very low yields at the present time. In the same way investments in industrial concerns while offering a somewhat higher return carry the risk of capital depreciation, particularly when an investment is made in one concern or even in one industry. The requirements of any sound investments are *(a)* steady and moderate income and *(b)* safety of capital with reasonable prospects of appreciation and an investment trust by compiling a carefully selected and well-balanced port folio minimises the risk of capital loss while at the same time setting out to offer to its shareholders steady and moderate return combined with a reasonable prospect of capital appreciation.

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a little amount of flexibility. The investments are not fixed but the field of investments are specified and the trustees in their own discretion operate the trust, the unit holder being notified of the exact composition of the trusts every half year. An investment trust may also be distinguished from a Finance Company in the fact that the former is allowed by its Articles of Association to include as revenue only dividends earned and receivable upon its investments. Capital profits, as booked on the sale of investments are not available for distribution to the shareholders as revenue. While, therefore cash profits in the form of dividends received from the Company's investments may be assigned to capital reserves as well as to revenue, capital profits are eligible only for capital reserves and cannot be divided as cash profits. The benefits to the shareholders from such capital profits, though real, is indirect, the shareholders being entitled to receive the dividends to be derived by the reinvestment of capital profit.

The Investment Trust has come to form the financial structure and it should be expected that in due course of time in India too, it shall form a permanent feature in the field of investment. It is feared that in times of market slump, these trusts may not accelerate the downward trend by flooding the market with their own securities. Nothing can be said to remove this fear as the result of the movement is still to be watched. But if trusts make a careful selection of the Board of Directors or of the trustees in case of Unit Trust, such a fear may not materialize as the trustees by their financial experience would guide the destiny of the trust. People in India, for one reason or he other, have developed an aversion to Industrial paper. Thus in the existing circumstances to supply the financial needs of the industries in India, the investment trust, properly organized and managed, seems to be the safest institution to mobilize public savings by offering a fight to the hoarding habit on the one hand and opening of new fields of industrial activity on the other and is expected to galvanize the econmic activities of the nation.

Banks :—

Banks form another reservoir into which the savings of the community flow. They not only attract deposits on current, Deposit, Home Safe and Savings Bank Accounts but render innumerable services to their customers and their shares are among the securities favoured by investors as remunerative investments, specially by those who are working to the more distant future rather than to the immediate future, for a substantial return on their capital. Their shares not only provide a separate market for the investor on the Stock Exchange, but they themselves are the greatest dealer on the Stock Exchange. In addition to advancing money for the financing of Stock Exchange operations of the security of stocks and shares, they also act as intermediaries for the purchase and sale of shares and securities on behalf of their clients.

During recent years in the long-term capital market they have begun to occupy a place of importance. In the last two years Indian Banking system had improved both quantitatively and qualitatively. Bank deposits have increased following the increased economic activity caused by the war and together with that the bank investment have simultaneously increased. At the same time there has been a substantial reduction in banks' holdings of immoveable properties due to the boom conditions which made their disposal profitable.

Banks are vitally interested in maintaining the value of Government Bonds, as a decline would mean a depreciation of their and other institutional investors' capital assets and it is not in their interest either to allow an increase in the bank rates which will bring about the depreciation of gilt-edge or to liquidate the bonds in the market at capital loss. If they want to keep a smaller proportion of their assets in the form of bonds, they must transfer them to other hands gradually avoiding both dear money and loss of capital value.

Insurance Companies :—

The existence of Life Insurance Offices in modern times, is one of the most important economic equipment of a nation, which apart from its outstanding characteristics of invaluable protection and positive security, diverts the savings from the millions who make them to those who use them. Life insurance offices handle a great magnitude of funds and make an important contribution for the fertilizing of industries and of other nation-building departments. They also provide sound and conservative channels for investment for the rich and the poor alike. Life insurance is not only a measure of protection but also of investment and the shares of big well-established insurance offices provide a valuable means of investments for the investor who can hope to get a substantial return on his capital after a period of years.

The investment policy of a life Insurance Office depends mainly on the nature of the Life Insurance Fund, which is created because of the nature of Insurance contracts which provide for a future monetary benefit, contingent on a specified event in return for periodical premiums. Generally the periods of policies are long ones and except in exceptional cases the claims of a Life Insurance office which arise in a particular year can be met out of the current incomes from premiums. This makes it possible for a Life Insurance Company unlike banks, to invest a portion of its funds in long-term securities like stocks and shares. In case of banks, liquidity of capital is the primary consideration behind its investments as the success of a banking institution depends very much on its ability to meet the demands of its constituents. This makes it necessary for banking enterprises to invest most of its funds in readily realizable securities without any loss of capital.

In India the investments of Life Insurance Companies are governed by section, 27 of the Insurance Act of 1938, which requires compulsory investments of 55 per cent of the Life Insurance Fund in Government and approved securities. This, in a measure, provides a safety valve for the investments of an individual in an Insurance Company as Gild-edged securities are not liable to so wide and sudden fluctuations as ordinary industrials. Investments in Equities of an Insurance Company form a very minor percentage of their funds, securities constituting about 70 per cent of the assets. The Table (Appendix XXXII) showing an analysis of assets of the Indian Life Insurance Companies indicates that the Indian Government and Indian State Securities constituted 53.37 per cent of the total assets and to this if added the British and colonial securities and Municipal and Port Trust securities the percentage rises to 62.52, while the percentage investment in shares amounting to only 6.74 per cent a very minor percentage of the assets. Though it is recognised that Equities yield a higher return than fixed interest bearing securities, but it requires a great amount of caution in going in for a large scale investment in Equities whose values are liable to voilent fluctuations and are regarded unsuitable from the point of view of security for Insurance Companies which require safe and sound investments. This is in fact the reason behind the investment of the majority of its funds in gilt-edge. If we compare the per-

centages of other assets, the percentage investments in share is second and is not very much less than the loans on policies and has been increasing constantly having risen to 6.74 per cent in 1940 from 1.64 per cent in 1915. If a large portion of its funds are invested in Equities, at the time of its actual valuation in a period of depression, though the company may be otherwise sound would disclose a deficit as the value of Life Assurance Fund shall fall with a depreciation in the values of Equities. Fixed interest securities though not unaffected by trade depression are still liable to much lesser fluctuations than Equities and this makes it necessary for an Insurance Company to follow a very conservative policy in matters of investments of its funds. Thus the Insurance Companies, on the Stock Exchange are mainly interested in the stability of these securities and speculative counters do not find place in the investment list of these institutions. They not only feel the effect of the changes in the security markets, but through the magnitude of their assets consisting mainly of Stock Exchange Securities, gilt-edge or otherwise, exercise a vital influence upon the course of such markets.

The need of Institutional Investors :—

The existence of Institutional investors is necessary with a view to stabilize our Stock Exchanges and to smooth the fluctuations in share values. Share Markets are susceptible to all kinds of influences which may disturb the morale of the market operators and may bring about consequent crisis. The recent experiences of the war which has been responsible, at many a times, for a number of crisis resulting in a marked fall in prices and a consequent closure of the market, indicate the necessity of some such agency which will not only stabilize the price structure of the market but shall provide palliative to all sorts of disturbances. In foreign countries, a large part of investment business on the Stock Exchanges is transacted by institutional investors like Investment and Unit Trusts, Banks, Insurance Companies, Educational, Charitable and Religious Trusts. These institutions not only smooth the working of the Stock Exchange and provide a check against violent fluctuations, but also come to the rescue of short-sellers at times when 'longs' try to create an artificial scarcity of floating Stocks of scripes by releasing their holdings. Till recently our markets were devoid of such agencies and it is a satisfaction to note at this stage that not only a number of investment trusts have been recently started but also that the number of banks and Insurance Companies has increased in the two years of 1943 and 1944. Institutional investors with their large resources and funds are in a better position to face the influence of any factor, political or otherwise. Their funds being distributed over a number of industries, they are not affected to a very great extent by panicky conditions. On the other hand private investors are easily influenced by sentiment and short-term outlook and become panicky on a least sign of deterioration in economic conditions and it is this factor that makes the need of Institutional investors more apparent. Thus the existence of such institutions is necessary to remedy the defect of the working of the Stock Exchange and to minimize the fluctuations in Security Prices. These institutions through the activities of their specialised stock departments try to stabilize Stock Exchange prices, as they follow the principle of investing when security prices are low and thus check further fall in prices and sell when they are high and prevent the prices from rising further. Thus these institutions create demand at times when demand is not forthcoming and by selling at times when supply is lacking bring about a proper adjustment in demand and supply and thereby lessen the course of price fluctuations.

In addition the need of the Institutional investors in the post-war period must also be realized. The huge amount of capital that will be needed in the

transition and the post-war period for the financing of new industries and the expansion of existing ones cannot be obtained from any private agency, it will, therefore, be necessary to float certain enterprises which will provide the medium and the long-dated finance to our industries. Banks, Insurance Companies and whatever investment trust we have in our country will not be able to cope with the demand. The existing Commercial Banks work, as it is on conservative lines, are also not in a position to finance the long term need of the Industry. Experience in this direction must be gained by the establishment of Finance Corporations for Industries Ltd. and the Industial and Commercial Finance Corporation Limited in England, which have been formed with "the object to provide temporary and long period finance for industrial business of the country with a view to their quick rehabilitation and development in the national interest, thereby assisting in the maintenance and increase of employment." In any scheme of Industrial planning in India the inclusion of some such financing agencies is all the more important particularly because of the conservatism of the Indian people and their apathy towards industrial investment. Without such agencies Indian industries would find it difficult to meet their demand of necessary finance. Government should be willing to stretch their helping hand in the formation of such enterprises and may in the first instance provide a major portion of the capital of such institution.

CHAPTER X

CONCLUSIONS.

Stock Exchanges are institutions which foster investment habit and need to be developed in the interest of a country's economic development. They are the arteries through which flows the life-blood of our industries. If we desire to industrialize, we must first attempt to perfect our exchanges as they form the main factor in industrialization. This is obvious since Joint Stock enterprise depends on Stock Exchanges for the marketing of securities. Security Exchanges render certain services which are essential in a capitalistic economy. They are closely knit together and a crisis in one is accompanied by a crisis in the other market and may bring about adverse repercussions of immense dimensions. Therefore some degree of control is always desirable not only to free the exchanges from collapse and crisis, but also to enable them to operate more efficiently and in the best interest of the nation. It is not possible at the same time, to achieve the ideal standard which may be free from evil and undesirable consequences. Certain drawbacks are bound to exist and should be considered as the price paid for the various services rendered by these institutions.

A well organized security market is expected to render a number of services, for example :—

(*i*) It imparts the necessary maketability and liquidity to securities by providing a ready and continuous market for them.

(*ii*) It provides the necessary mobility to capital and directs the flow of savings into profitable and successful ventures in accordance with the best interests of the investors and of the national economy as a whole.

(*iii*) It provides a safety of dealings and protects the interests of the investors.

(*iv*) It provides a ready means for the evaluation of securities in terms of their investment worth.

In our country these services have been performed with a sufficient degree of efficiency. But at times a large volume of uncontrolled speculation has had adverse effects on the national economy. Particularly under present conditions of war-time economy, with an increase in unusable money, Stock Exchanges have become fields of wide speculation and gambling. Formerly it was the Bombay Stock Exchange alone which was venturesome and speculative, while the Calcutta Market was characterized as sober and calculative and the Madras Market as cautious and conservative. But at the present time even the Calcutta Market seems to have got out of the rut and there has been hectic speculative activity on this market as well.[1] Madras has not lagged behind and people, anxious to become rich quickly have traded wildly and the market is being largely controlled by speculators and professional operators. This feature of speculation occupying a prominent position in our share markets emphasises the necessity of reforms. It is a great satisfaction to note that Stock Exchange authorities have been quick in taking suitable actions

1 Commerce, 15th July, 1944.

from time to time to check highly speculative tendencies of the operators, a majority of whom have no intention of payment and delivery. They deal for differences and depend on carry-over facilities. The absence of any system of margin further encourages overtrading and reckless gambling which often leads to ruin and disaster. All these factors emphasise the necessity of certain permanent reforms which should be directed towards the effectiveness of security markets in performing their essential services by reducing the volume of speculation and by raising the tone of the market. The Government of India, as also some of the Provincial Governments have from time to time taken certain measures, whether successfully or otherwise, to control the magnitude of speculation and recently a Special Research Officer has also been appointed by the Government to go into the question of Stock Exchange reforms. A questionnaire has been issued by the Finance Department, National Investment Section, relating to the working of the Indian Stock Exchanges in the Country and Mr. P. J. Thomas has been deputed to visit the Stock Exchanges of New York and London and suggest suitable measures for reforms. We have to watch the events and see to what extent the efforts of Mr. Thomas are utilized for their organization of our markets.

Under the present rules of our Exchanges, any moneyed man can purchase a card or a share of a security market and become entitled to its membership, no period of training or apprenticeship being necessary. The Stock Exchange authorities do not insist on any minimum qualification of members. The Stock Exchange business is full of intricacies and responsibility. To enter into such a business without any knowledge, experience or training is to court disaster. Though every Stock Exchange in this country can boast of a good handful of competent, honest and knowledgeable brokers, yet most of the brokers do not have any upto date information about the position of a company, either because they do not care and are content with their commission or because they do not understand and are quite ignorant of company practices. Such brokers cannot advise the clients about the future prospects of the company in the most desirable manner. Many members have little education and are not in a position to keep pace with modern political, social and economic developments. It is therefore necessary that the Stock Exchange rules should prescribe certain minimum qualifications and a period of training or apprenticeship for its members. At the London Stock Exchange, this defect has been, to a certain extent, overcome by making a provision for the admission of clerks on the *waiting list*. They are allowed certain privileges in the conditions of membership. While acting as clerks to members, they have undergone a period of training and are thus in a better position to advise the clients than a simple moneyed man who has been able to obtain the membership of the exchange merely on account of his financial position. If our exchanges also make some provision for the training of members, better advice and guidance may be forthcoming for the benefit of investors and the general public.

The Stock Exchange has a public duty and should protect the investors from investing in unsound companies through its listing regulations. A very large number of companies have been floated during the present war boom and many of them, which will not be able to face foreign competition in the post-war period, are bound to fail after the war with the consequent loss to investor as happened at the end of the last Great War. No doubt, it is wrong to suppose that just because a company has its shares quoted on the Stock Exchange, it thereby acquires a certain measure of soundness and promise of prosperity. The fact of the matter is that if normal listing requirements are complied with the Stock Exchange automatically permits dealings in shares of any company, sound or unsound. Instances are not rare of

companies finding their entry into the official lists of Indian Stock Exchanges either through influence or for consideration of some other kind. This is a very unwholesome feature of our exchanges. The listing regulations of an exchange should call for information which would enable the listing committees to judge the soundness or otherwise of a company. At the Bombay Stock Exchange the listing regulations require the disclosure of all material changes in the general character of companies. The Morison Committee regarded it to be the duty of the directors to disclose all material facts in the prospectus, but if the directors in their own interest wish to manipulate things in their own ways, how are the investors to be protected ? The regulations further provide a safeguard against the wiles of company promoters, as no dealings in a company's share is allowed on the floor of the exchange, unless the investing public has been given a chance to apply for shares and at least fifty per cent of the share capital has been subscribed by the public But this and similar other listing conditions do not obtain in other markets in India so that elsewhere than in Bombay, there is the danger of company promoters taking advantage of the prevalent plentiful money and the ignorance of the investing public. It is therefore suggested that other Stock Exchanges of the country should adopt such rigid listing regulations as those of the Bombay Stock Exchange. This is particularly necessary with a view to discourage the malpractice of *stagging* as if the public is offered a fairly large proportion of the shares, the directors and the promoters cannot take advantage of a short supply of such shares later on at the expense of the investing public. At the same time, it is also very necessary that a closer scrutiny of securities should be made before they are actually listed. The real need of the country is that efforts should be made to make available to the investors impartial and unbiassed opinions on securities, so that they may not have to burn their fingers in a Stock Market.

With regard to the constitution of the exchanges, it is often suggested that there should be some sort of outside and government representation on the governing boards or the committees of management, and that the various comercial bodies should be permitted to send their nominees on the Board. This proposal has been objected by the authorities of certain Stock Exchanges on the ground that members understand the complicated questions better than any outsider. It cannot be gainsaid, however, that the presence of outsiders has a moral effect on the directors or the governors who would administer the rules in the best interests of the investing public. And if in adopting such a course of action, the interest of the investing public is served, there is no room for objection. The well-being of the exchange is the concern alike of the brokers and the public. Clients' interest must be safeguarded in every way, both as regards the bonafides of the transactions and the safety of their money. Two or three public men of standing and known probity should give authority to its deliberations and impartiality and wider outlook to its decisions.[1] At the present time on the Bombay Stock Exchange the problem has been partly solved by the appointment of a full time non-active member-president who is supposed to safeguard the interests of the public.

Two further defects of our Exchange may be noted. Firstly the brokers at our exchanges allow their clients to overtrade and secondly they themselves trade speculatively on their own account beyond their means. Of late it was mainly true of the Bombay market where carry-over facilities were permitted and forward business was transacted under the guise of ready market on the basis of fortnightly *vaida*, inspite of the fact that forward trading was suspended in 1940 and was completely abolished in the middle of October, 1942. In September, 1943, an ordinance embodied in Rule 94-C of D. I. R.

1. Indian Finance, August 14, 1937.

was issued banning *budla* business. Under the ordinance Stock Exchange authorities are prohibited from providing any facility for the carry-over of the transactions and delivery and payment are restricted to seven days. But the ordinance could not solve the problem, while on the otherhand, it has driven away the legitimate business of the Exchange to 'Grey markets' by which not only speculation was aggravated and the very object of the Government was frustrated, but at the same time, it meant a huge loss of revenue to the Government. "The administrative difficulties were multiplied and hardships increased and even more serious was the development of 'grey' markets that spring into being and thrived in the streets outside the control of the Stock Exchange. Price manoeuvering and manipulation were in the ascendant and over and over again *bona fide* sellers were handicapped and short sellers were penalised for performing their normal function. Before the promulgation of Rule 94-C the share market has successfully adjusted its values to the value of money as exemplified in the ruling rate of interest. Trading in every type of share and security had, subject to the risk co-efficient, approximated in value to the average rate for all gilt edged securities that were bought and sold on the Stock Exchange. Rule 94-C cut athwart the basic principles governing stock market technique. A free, broad and active market ensuring liquidity of holdings and continuous adjustment of values from point to point in the smooth flow of moving equilibrium was in a large measure destroyed by this unfortunate tampering with the trading machinery. Unhealthy activity centred on the enforced technical imperfection of the market and attempts were made from time to time to exploit this deficiency. For instance, in February, '45, century Mill Shares fell a prey to manipulations and there was a price difference of about 250 points in the course of a brief week. Backwardation, a rarity in normal times, became the order of the day in the 'grey' markets and one scrip after another was juggled with till there was not one of the note left out of the game."[1] This indicates the extent to which business was transferred to 'grey' markets. In practice, however, delivery and payment are often postponed by mutual arrangement even though Stock Exchange authorities are prohibited from providing any facilities for *budla* business under the Rule 94-C. Not only that but the contagion was also spread to the Calcutta and Madras markets as well. These markets too are now not free from the speculative mania of the operators and are becoming highly speculative in outlook. This speculative mania of the operators is to be controlled in the interest of country's economic development.

It is contended that overtrading is the result of forward trading and the facilities of carry-over from one settlement to another, and therefore with a view to check overtrading, it is desired to abolish forward trading completely. But it must not be lost sight of that even the exchanges of New York and Calcutta, which allow cash business only, are not free from overtrading ; and inspite of the fact that only cash business is permitted, transactions more often are not completed within the time prescribed and are carried over. Forward trading, as a matter of fact, is the essence of stock exchange business and is a necessity in the present order of society. What is needed is its control, so that it must not be allowed to go beyond reasonable bounds. For a country like India, with immense industrial possibilities the provision of a free and wide market for industrial securities must be maintained to stimulate a continuous flow of fresh capital into industrial enterprises, and to achieve this stock market facilities should be widened. Forward trading makes possible the existence of continuous market and its abolition is not only undesirable but harmful too.

1. Mr. K. R. P. Shroff—Annual speech delivered on 4th Aug. 1945.

What is needed is the regulation of forward trading and its control. It would therefore be necessary that proper control should be exercised over stock market by some government machinery. The adhoc measures taken by the government from time to time will not solve the problem, and a permanent government machinery, which would watch the activities of the exchanges and take suitable measures with a view to safeguard the interests of the investors and of the nation as a whole, is needed. The government machinery so set up would not only coordinate the activities of the various exchanges of the country whose rules and practices so widely differ but at the same time would try to bring about permanent reforms in the practice of stock exchanges. Stock Exchanges form great financial centres and their failures on various occasions, in Delhi, Cawnpore and Madras and at various other centres, have led to the weakening of the confidence of the investors. Whenever any new stock èxchange is started, the possibility of its success must be carefully examined and its rules scrutinized. It is therefore very necessary that with a view to develop the investment habit amongst the Indian public an all-India legislation to control the activities of the Stock markets, after a careful enquiry into the whole question by this newly set up government machinery, be enacted. The governing bodies of the stock exchanges may be given perfect autonomy in the matter of organization but their rules should be based on an all-India basis. This will not only infuse the necessary confidence in the minds of investors and would bring further capital for industries, but would also confine the speculative activities of the operators within reasonable limits. It will necessitate the appointment with the government of India of a Controller of Stock Exchanges with suitable subordinate organization and staff.

At the Bombay Stock Exchange the most prolific source fo over-trading is the activity of a class of members of the Exchange, who are not brokers in the real sense of the term *i. e.* men who live on remuneration for the sale and purchase of shares on behalf of bonafide customers. Some members, so called brokers and miscalled jobbers, carry on what is known as *tarawani* bnsiness which is entirely of a parasitic nature. They rush in to buy or sell according as they find bonafide brokers trying to execute buying or selling orders. Their operations necessarily result in price movements almost always to the detriment of clients' buying or selling. These *tarawaniwalas* hardly keep any outstanding business overnight and they continuously go on buying and selling at a small range of fluctuations. Their actions are nothing but gambling in differences. This leads to consequent overtrading which at times has resulted in disaster and crisis. This state of affairs should be reformed. But as the size of business at the present time does not warrant a permanent classification of members into brokers and jobbers, which is very desirable, the members should declare at the beginning of each year whether they wish to act as a boker or a jobber or both and the management must see that the decisions are scruplously adhered to. This will protect the bonafide brokers from the uneconomic competition from jobbers who will be debarred from dealing directly with the public. At the same time investors will be assured of a fair deal through bonafide brokers, if they make a right selection.

The non-existence of any system of margins makes possible for people of small means to trade on the market, and this often leads to overtrading. It is, therefore, desirable that a system of margins should be introduced whereby every dealear, whether a member or a non-member, should be required to deposit an initial amount with some Stock Exchange authority, preferably the Clearing House, and the margin should not be allowed to fall below a

certain percentage. A little concession in the matter of time may be allowed in case of up-country clients.

Besides, the system of blank transfers so rampant in the country should be properly regulated. The use of blank transfers affords an opportunity for further speculation. Under the present system the seller transfers to the buying broker a blank transfer form duly signed together with the scrip and the buyers do not get their shares registered in their own names at the company's offices, as they intend to sell these shares again as soon as the market improves. No doubt the system encourages speculation but owing to the peculiar conditions of the country which requires capital for its industrial advancement, it is not feasible to abolish the system of blank transfers. But its period of currency should be restricted to three months and an all-India legislation should be enacted to this effect. But at the same time it must not be lost sight of that the present practice of using blank transfers is to a large extent due to a high scale of stamp duty on transfers. If the rate of duty, therefore, is made nominal, the practice of using blank transfers will be considerably curtailed.

Private compromise, though punishable under the rules of the Bombay Stock Exchange, is very common in Bombay and provides an encouragement to unhealthy speculation. On the Bombay Stock Exchange, there exists a Defaulters' Committee, but the Committee seems to have no work. This laxity in the enforcement of rules further encourages reckless and irresponsible dealings at the Stock Exchange, as the members know that, if they overtrade, they have more to gain than to lose since losses have not to be paid in full and can be compromised. Such a compromise should not be permitted as the members who may be in a position to pay may make a compromise and creditors may suffer for nothing. The Defaulters' Committee should go into the whole question of investigation. The rule should be rigidly enforced with a view to remove unscruplous defaulters from the market who take undue advantage of the market conditions. The Morison Committee was also not in favour of compromise when it observed that compromise in any shape or form, in order to avoid default should be prohibited under pain of severe penalties.[1]

Under the present rules of our exchanges, authorized clerks are not permitted to make bargains in their own names, but they are not prohibited from dealing for themselves. They can buy and sell on their own account through a member, in the name of a member and under his instructions. This leads to a serious abuse. For example if a clerk has a large order to be executed in the market, he can first deal on his own account at the advantageous price and his employer or the client might be the victim. Such authorized clerks should not be allowed to do business for themselves and any member permitting his authorized clerks to enter into business on their own account should be fined and for repetition gradually suspended and expelled. At the same time these clerks should be permitted to enjoy certain benefits and privileges. They should be provided with better prospects. Their minimum scale of pay should be laid down by the exchanges and a number of seats for membership should be reserved for them.

To restrict the magnitude of speculation, it is also necessary that the list of securities should be widened and opportunities provided for a large number of investors. At the Bombay Stock Exchange, shares of only those companies can be traded in, which keep a register in Bombay. This is not a very encouraging restriction. There is no reason why shares of companies having a register in various parts of India should not be permitted. This would

1. Morison Committee Report.

widen the field of business and would reduce wide fluctuations. In addition deffered shares are by their very nature more speculative and it will be in the interest of the investing public if they are removed from the forward list at the Bombay Stock Exchange. Such shares lend themselves to speculative activity of an uncontrollable character and at times have been a source of impoverishment and trouble to many. Such shares have been a cause of panic on the market and the desirability of removing them from the forward list may be considered with advantage, with a view to check unhealthy speculation.

In addition, it has also been suggested that a sales-tax on forward dealings may be levied with a view to restrict speculative activities on the exchange to a desirable extent. But the proposal does not seem to be feasible as the imposition of such a tax would create innumerable administrative difficulties and would more often be evaded and may restrict the flow of capital into industries.

In order to provide additional business facilities to investors, the number of shares should be increased. The denomination of a share should be lessened. There is a general tendency in Calcutta towards shares of small denominations, while in Bombay towards large denominations. From the point of view of general economic condition, the shares of small denomination seem to be better fitted to India. The large denomination shares are suitable for speculation and there are great chances for their cornering. Lower denominational shares will stimulate the small investors to put their savings in them and corner possibilities would become rare. To achieve this object companies having shares of large amounts should be pursuaded to split them and if necessary, government might intervene.

Better facilities should also be provided to the investors with regard to market quotations. The quotation service at our Exchange is the poorest in the world. The present black-board at the Bombay Stock Exchange should be replaced by electric boards which should show the current market prices of active securities from time to time. The present blackboard is often behind time. Electric or mechanical tickers are also desirable and should be introduced as soon as possible.

All these suggestions would no doubt remove some of the defects from which our Stock Exchanges suffer, but there are other measures which are no less remedial. It is not enough that Stock Exchanges should be reformed. Investors should also be taught to learn the technique of investment. Investors should not, as a rule, depend on market tit bits or rumours. On the other hand, they should study the published accounts of a company before they decide to buy any shares. Under the Indian Companies Act every public limited company is required to publish at least annually a profit and loss account. a balance sheet and a directors' report. These documents are available to investors in order to enable them to arrive at sound conclusions regarding the prospects of a particular company.

The investor, with a view to assess the value of the business of a company from its published information—the Balance Sheet, Profit and Loss Account, the Auditors' Report and the Directors' Report—should try to answer the following question :—

(*a*) Is the Company's earning capacity satisfactory ?

(*b*) Is the financial condition of the Company sound ?

(*c*) Is the Company economically well-placed and is it under good auspices?

(*d*) Does the break-up value of its shares compare favourable with their market value and is their yield satisfactory ?

To get an answer to the **first question** it is necessary that a comparative study of the Profit and Loss Account for a number of years should be made, as the figures of only one year would not give any true indication of the earning capacity of the concern. Business in practice does not move on an even keel. Economic and financial conditions vary ; changes in management occur ; difficulties with employees arise ; changes in tastes may suddenly create new markets or wipe out the existing ones—all these and many others which are constantly at work bring about innumerable changes which often come as a great surprise even to people who are intimately connected with business. Hence it would be dangerous to examine the Profit and Loss Account figures for only a year or two. But on the other hand, the accounts for a period of three years or more may be examined and a comparative statement somewhat in the following form prepared[1] :—

	1944	1943	1942
	Rs.	Rs.	Rs.
Closing Stock			
Sales			
Directors' Fees			
Managing Agents' Remunerations			
Other working expenses			
Trading Profit			
Income from other sources			
Total Earnings			
Provision for taxation			
Allocation to Depreciation			
Allocation to Reserves			
Dividend Amount			
Dividend °/₀ Preference			
Dividend °/₀ Ordinary			
Carry forward			

Attention then should be directed to the following points :—

Trend of Sales :—Sales are the life-blood of every business and if the sales of a business are on the down grade and if steps have not been taken to arrest their decline, the very existence of the business may be in danger.

Volume of Expenditure :—One of the killing diseases of a business is increasing expenditure not accompanied by a corresponding expansion in turnover. By comparing the percentage of each item of expenditure to turnover for a number of years, it is possible to ascertain whether the administrative and selling expenses of a company are unduly increasing.

1. The amount of the proposed appropriations of profits, if not shown in the Profit and Loss Account, are found in the Directors' Report.

Source of Income :—Various sources from which the company has derived its income should be ascertained and it should be seen whether there is any source of income which will not be available in future. It is just possible that a substantial portion of a company's earnings may have been derived from gilt-edge investments, but if the greater part of the investments has been recently sold in order to provide additional working capital the future income from investments would be considerably reduced.

Trend of Earnings on the effective capital employed .—Attention should then be focussed to the trend of earnings. Mere earnings, however, are meaningless unless they are related to the capital employed during the period in which they have accrued. Judged by earnings alone, a company may appear decidedly progressive, but the examination of the accounts for several years may show that every rupee of new capital put into the business is obtaining a decreasing return. Therefore it is essential to ascertain and compare the percentage of earnings on the ordinary effective capital employed in the business.

Incidence of Taxation :—The amount provided for taxation should also be noted and compared with the figures of past years. It is possible that the company may not be in a position to maintain its previous dividend levels on account of an increase in taxes.

Depreciation and Reserve Policy :—The investor would do well if he notes the depreciation and reserve policy of the management whether generous, stingy or reasonable. If block has already been depreciated to a low level and if the existing reserves are colossal any further allocation for depreciation on the same scale is open to serious objection. This means that a substantial portion of the profits is *ploughed back* or diverted to other channels than that of shareholders. In such a case the term *equity shares* is rendered a misnomer, as such a finance deprives the holders of *equity shares* of the fruits of their abstinence. Such a financial policy is, of course, very sound, but is certainly not correct. On the other hand the policy of distributing huge profits of prosperity by declaring extravagant dividends, without making a provision for times of adversity or for future growth, is to be condemned. What is needed is a sense of propoition. Both these extremes—the ploughing back of a substantial portion of the earnings, and the up-to the-hilt distribution—are to be avoided. While it is necessary to make adequate provision for depreciation and reserves, it is equally desirable that the shareholders who have supplied the capital should not be deprived of their just dues.

Dividend Record :—A steady dividend policy is always desirable both in the interest of the company as well as of its shareholders. An investor, should therefore examine the dividends declared and the carry forwards for a number of years in order to ascertain whether the dividend policy of the company has been steady or otherwise.

As regards the **second question**, attention should be directed to the study of the Balance Sheet. A Balance Sheet, though intended to exibit the intrinsic position of a company, is not a valuation statement. It is simply a classified summary of the balances remaining open in a set of books after the nominal accounts have been closed by transfer to Profit and Loss Account and including the balance of that account. It shows the position of the concern at a particular moment and should be studied with enough care and caution, as it is a combination of real and conventional figures. It does not show the estimated realisable value of the assets if they were offered for sale. It is a statement drawn up in respect of a going concern. Capital or fixed assets being valued at cost minus depreciation appear at conventional or 'token

figures.' Thus it is partly a statement of fact and partly a statement of opinion. It is a matter of fact so far as tangible assets are concerned but when values are to be assigned, as in case of goodwill, it becomes a matter of opinion. Besides, certain secret reserves are bound to exist. which are not disclosed on the face of a Balance Sheet.

However difficult it might be to interpret a Balance Sheet, it is in fact the most important document which comes into the hands of a shareholder. It is far more significant than a dividend cheque. If the Balance Sheet tells an unsatisfactory tale, the dividend cheques will eventually cease altogether. When studying a published balance sheet (sometimes running into several pages) it is important to remember that unless a balance sheet is entirely broken into pieces and rebuilt, it will tell the investor nothing except that its two sides are equal. It should, therefore, be rearranged in order that the financial position may stand out at a glance. The following form is suggested for the purpose :--

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
1. **Fixed Finance** :—		1. **Block Account** :—	
Share Capital		Gross Block	
Reserves		Less Depreciation	
Debentures		Net Block	
Long term Deposits			
2. **Current Debts** : -		2. **Liquid Resources** :—	
Loans and Deposits		Stores	
Liabilities		Stocks	
Proposed Dividends		Outstandings	
		Investments	
		Cash	
3. **Carry forward** (or undistributed surplus)		3. **Loss, if any** :—	

Having thus redrafted the Balance Sheet, attention may be given to the following matters :—

Capital Structure :—The investor should find out whether, taking the size of the business into consideration, the share capital is heavy, mederate or inadequate. Classes of shares and dividend arrangements between them should also be noted. Here *Gear Ratio* forms an important aspect of the question. High geared equity shares (*i. e.* low in proportion to fixed interest stocks) rise rapidly in a period of prosperity, and fall rapidly in a period of depression ; whereas *low-geared* equity shares (*i. e.* high in proportion to fixed interest stocks) rise more slowly in a period of prosperity and fall more

slowly in a period of depression. Therefore the higher the gear the more speculative the equity shares.

Comparison of Block with fixed finance :—Further it is very necessary for a sound business that its block should be financed with fixed capital and as such the block account should be compared with fixed finance. Just as the existence of reserves strengthens the financial position of a company, similarly an excess of fixed capital *i. e.* share capital and debentures over net block indicates a financial supremacy of the company and is a matter of satisfaction to the shareholders. It should also be noted whether the block includes any appreciable imaginaries such as goodwill, preliminary expenses etc. and whether it has been adequately depreciated.

Valuation of floating assets :—Valuation of assets, particularly stocks, form the third query to be attended to. It is generally in the valuation of stock that most third-rate companies conceal their weakness. It should also be noted whether there is a tendency for stocks to increase from year to year.

Working Capital :—Working capital or net liquid assets should then be ascertained by deducting current liabilities from the current assets, but in so doing current assets having no value, *e. g.* prepaid expenses, should be ignored. The higher the working capital, the stronger the intrinsic position of the company.

But much depends on the **third question**, viz., whether the company is economically well-placed. A company, having an experienced, efficient, economical and honest management together with other advantages of situation, proximity to markets, uptodate equipment, well-paid and contented labour and having the benefits of special economies, such as absence of unhealthy competition, sources to utilize the bye-products, privilege of tariff protection, rationalization etc., is in much better position from the point of view of its shareholders and is likely to earn more and naturally the real worth of its shares should be much above their nominal value. Thus the investors, while assessing the value of a company's shares should study the working of the company, its results, the quality of its management and its future prospects and form sound conclusions, remembering that the declaration of high dividends is not necessarily an index of the strength of the concern.

The investor before the selects a particular company for investment, should compare the **break-up value** of its shares with their market values. The break-up value can be calculated by estimating the worth of its assets less liabilities after allowing for a probable loss or possible profit on the Balance Sheet values. The net assets or equity thus calculated should then be apportioned on the following principle :—

(a) if the preference shares have priority as to capital on a winding-up, as well as, to dividends, they will be valued at par, and the balance will be divided by the number of ordinary shares which will give the value for one ordinary share. .

(b) If the preference shares rank equally with the ordinary shares on a winding up, the net assets will be deemed to be the combined property of these shares, and by dividing the net assets so arrived at by the combined number of these shares, preference and ordinary both, we shall get the value of one preference or ordinary share.

The principle can be illustrated by the following example :—

The Balance Sheet of a Limited Co.

	Rs.		Rs.
2,000 Pref. Shares of Rs. 100 each	2,00,000	Fixed Assets	4 75,000
		Stocks	2,07,500
5000 Ordinary Shares of Rs. 100 each	5,00,000	Debtors	2,22,500
General Reserve	1,50,000	Investments	57,500
Creditors	1,50,000	Cash	2,37,500
Profit & Loss A/C	2,00,000		
	12,00,000		12,00,000

Assuming the book values of the assets and liabilities to be correct, the valuation of both classes of shares would be as follows :—

(i) if the Preference Shares have a priority as to repayment of capital in winding up, then each preference share is worth at par and each ordinary share may be valued at Rs. 170 (*i. e.* 12,00,000—1,50,000—the preference shares 2,00,000=8,50,000, divided by 5,000, the number of ordinary shares.)

(ii) While if the preference shares rank *paripassu* with the ordinary shares then each share shall be worth Rs. 150 (Assets minus Liabilities 12,00,000—1,50,000 equal to 10,50,000, net assets, to be divided by the number of shares 7,000)

But in making these calculations ***contingent assets*** not shown on the face of the Balance Sheet should not be ignored. As at the present time with the complete immobilization of the Excess Profits by the provision of compulsory deposit of 19/64 of the Excess Profit Tax which is equal to 66⅔% of the Excess Profits, it is provided that the amount of compulsory depositis refundable after the war with an interest of 2 per cent and a bonus equal to 1/10th of the Excess Profit Tax paid. In such a case in assessing the value of a company's shares, the net assets should not only include the excess profit tax deposit but should also include the future asset arising out of interest and the bonus to be paid by the government.

The determination of mere break-up value would not solve the problem. It is also necessary that the investor should calculate the yield on his investments. A difference in yield is not so material to a speculator, but to an investor, who is mainly concerned with the permanent income on his investments, the yield forms an important aspect of the problem. The investor should be able to judge the comparative merit of any two investments. The merit of two different investments, which are otherwise equally sound, can be compared by calculating their respective "yield." The word **yield** does not indicate the rate per cent that is nominally being paid but the rate of interest which is being paid per hundred rupee of the 'Capital Cost' of the investment.

'Capital Cost means the price paid for a particular security exclusive of any interest or dividend accrued thereon. Take for instance, that 3½ per cent Government Paper, 1865 issue, (nominal value Rs. 100), interest payable on 1st May and 1st November, is quoting at Rs. 98, on 30th September. On this date five months interest is accrued which amounts to Rs. 1-7-4 and the 'net accrued interest' (exclusive of income tax) would be equal to Rs. 1-0-5 (Rs. 1-7-4 less 0-6-11, income tax). According to Stock Exchange practice, the buyer has to pay net interest accrued to the date of payment to the seller and if the price, as is assumed here, is Rs. 98. the buyer would pay to the seller Rs. 98+ the accrued interest and the net accrued interest being Rs. 1-0-5, the capital cost of the investment to the buyer would be Rs. 99-0-5. This would give a taxable yield of $\frac{100}{(99\text{-}0\text{-}5)} \times \frac{7}{2}$ or 3.53 per cent. At the same time an allowance must also be made for income-tax to be deducted at source out of the interest to be received by the purchaser and as such though the yearly interest on this paper is Rs. 3-8 yet the amount that will be actually received would be Rs. 3-8 minus the tax deducted at source at the maximum rate (viz. Rs. 3-8 less 1-0-8=2-7-4) and therefore the tax-free yield on the above investment would be $\frac{100}{(99\text{-}0\text{-}5)}$ x (3½ --Income tax) or 2.50 per cent.

Yield on Fixed Interest Securities :—

The calculation of yield on Fixed interest securities such as Government loans, Port Trust and Municipal Debentures, Bonds, Debentures and Preference Shares of Public Companies, is comparatively an easier matter and in case of irredeemable securities the yield can be calculated as explained above. But in case of redeemable securities, unless their 'Capital Cost' happens to be the redemption price, the yield calculations shall be affected by the redemption prospects. If 3 per cent Loan, interest payable on 1st April and 1st October every year, redeemable at par, say after ten years, is quoted in the market at Rs. 96, on 31st August, the yield ignoring redemption prospects but after allowing for income-tax deductions would be 2.16 per cent. (Interest accrued for five months 1-4-0, income-tax 0-5-11, net accrued interest 1-4-0 minus 0-5-11=0-14-1. Capital Cost of the investment, therefore, would be 96 plus 0-14-1=96-14-1, and the interest after allowing for income tax is Rs. 2-1-9 (Rs. 3 less 0-14-3) and the yield would be 2.16 per cent). But the security is to be redeemed after ten years at a value of Rs. 100, which implies that the 'Capital Cost' of Rs. 96-14-1 now invested would give Rs. 100 after ten years and as such the purchaser, if he keeps the security till the time of redemption would earn a profit of Rs. 3-1-11 (Rs. 100 minus Rs. 96-14-1), at the time of redemption and hence present worth of this profit is also to be accounted for which would increase the yield accordingly. It is thus to be found out as to what sum, if invested each year at a given rate of compound interest will amount to Rs. 3-1-11 at the end of ten years. Assuming a 3 per cent rate of interest, by consulting Sinking Fund tables, we would know that a sum of .087230 would at 3 per cent compound interest amount to Re. 1/- after ten years and hence a sum equal to .27 approximately (.087230 x 3-1195) would give us Rs. 3-1-11 at the end of ten years and thus the yield of 2.16 would be increased by this figure and would amount to 2.43 per cent (2.16 plus .27). Such yield is termed as 'Redemption Yield' as compared to 'Flat Yield' which does not take into account the redemption prospects.

On the other hand the 'Flat Yield' would be inversely affected, if the price in the market is quoted above par or the debentures are to be redeemed at a discount.

But the calculations here cannot be said to be exact as the 3 per cent rate of interest that has been assumed here for finding out the present worth of the redemption prospect would not actually be 3 per cent but the proper rate for this calculation should be actual yield which we shall get after allowing for the redemption prospects, and is a matter for a competent actuary to calculate.

Redemption at the option of the Government or the Company :—

In cases where no date of redemption is fixed in advance and the Loan or the Debentures are to be redeemed at the option of the issuing authority, it becomes difficult to calculate the Redemption Yield and the calculation would depend on the probable date of redemption, as it is not possible to foretell at what date the Government or the Company will choose to redeem the loan. For example in a certain issue, it might be provided that the Loan is to be repaid at any time after 15 years from the date of its issue but before the expiry of 30 years, on six months' notice being given. In such a case it is not possible to find out the actual date of redemption of the Loan which might be redeemed any time between a period of 15 to 30 years, and the redemption in such a case in all probabilities would depend on the price of the Loan in the market at a particular time. If at any time between this period the Loan stands below par, it will not be profitable for the Government to redeem it, on the other hand, it shall be more profitable for the Government to buy it in the open market. But if the price rises above par it shall be profitable for the Government to redeem it even if the Government had to borrow money to do so. Thus in the former case the date of redemption shall be extended while in the latter case the Loan shall be repaid at an early date. Therefore in calculating the yield in such cases, we have to depend on the market price of the Loan and if the ruling market price of the Loan is above par, it shall be assumed that the Government would take the earliest opportunity for redemption and fifteen years would be assumed as the Redemption period ; while if the price is below par it is to be assumed that the Government will delay redemption as long as possible and the maximum period, *i. e.* 30 years, in our example, would be taken as probable redemption period.

In cases where maximum redemption perid is not fixed and the Loan is redeemable say, 'on or after' April, 1950, if the Loan is below par in the market, the yield will be calculated as if the Loan is irredeemable ; while if it is above par, the assumption would be that the Loan shall be redeemed at the earliest possible date *viz.* April, 1950.

In cases where Redemption is to be made by instalments, it becomes impossible to calculate the yield on any bond owing to the uncertainty as to the date of redemption. All that can be done is to find the average yield and for this average duration of bonds from the time of purchase is to be found out and that shall form the period for the calculation of the Redemption Yield, though the results shall not be exact.

Variable Yield Investments :—

In case of investments on which the rate of dividend is not fixed such as Ordinary and Deferred shares of public companies the yield is calculated on the basis of 'Expected Yearly Dividend' which might be based on the last yearly dividend actually paid or announced. If the company has declared only a Final Dividend, the calculation would be much simpler *e. g.* Rs. 100, shares on which a dividend of Rs. 25, free of tax, has been declared is quoted

at Rs. 245 c.d. at a particular time, the yield in this case would be 11.36 per cent, free of tax. (Dividend on variable yield securities such as Ordinary or Deferred shares is almost invariably declared free of tax or without deduction of tax paid or payable by the company and therefore the yield is tax-free, which means that in its calculation, no question of income tax has to be considered. But if on such an Ordinary share an interim dividend has also been declared and paid, the calculation would be different. For example an ordinary share on which an interim dividend of Rs. 10 and a final dividend of Rs. 15 have been declared, is quoted in the market at Rs. 245 Cum. Div. In this c. d. quotation, it is only the final dividend that is included and would be deducted to find the x. d. price, though the total dividend income of the year would be Rs. 25, which is the 'Expected Dividend Income' for the current year and the yield in this cnse would be 10.87 per cent. (Dividend accrued Rs. 15 and therefore the Capital Cost is 245 minus Rs. 15=230, expected yearly Dividend Rs. 25 and therefore the yield 10.87 per cent.)

Further in case of shares, the question of 'rights' is also to be considered in the calculation of yield. An issue of 'rights' can take either of the two forms *viz.* right to subscribe to the new issue of shares at concessional rates or a right to free issue of bonus shares. In calculating the yield on a share which is quoted c. r. (cum right) the value of 'rights' attaching to that share at that time is to be ascertained and the x.d. x.r. price is to be calculated. For example a company with an issued capital of Rs. 5,00,000, in Rs. 100 shares, standing in the market at Rs. 245 needs further capital for the extention of its business and decides to issue to the existing shareholders 1,000 shares of Rs. 100 each, at a price of Rs. 203 per share, shareholders being given the right to apply for one new share at Rs. 203, in respect of every five shares held by them. Supposing further that the price of Rs. 245, quoted in the market is c.d. c.r., a dividend of Rs. 25 per share, free of tax, having been declared and also that this price remains unaffected by the annnouncement of this fresh issue of capital at concessional rates. The yield in this case can be calculated only when the value of this 'right' has been ascertained.

In the above illustration the value of 'right' can be ascertained as under:-

c.r.x.d. market price for one share = 245—25 = 220.

c.r.x.d. market price for five shares = 220 x 5 = 1,100.

Add amount to be paid to the company for getting a new share +203

Price of six x.d.x.r. shares 1,303

The price of the x.d.x.r. share 1,303/6 = Rs. 217·2·8.

The value of the rights = (x.d.c.r. value) — (x.d.x.r. value)

= Rs. 220 — Rs. 217·2·8 = Rs. 2·13·4.

and the yield, in this case would be 11.51 per cent.

But if, in the above illustration the company does not issue fresh capital at concessional rates, but issues one bonus share for every five shares held in the company, Rs. 203 will not have to be paid to the company and accordingly the price of six x.d.x.r. shares will be Rs. 1,100 and therefore the price of one x.d.x.r. share will be 1,100/6 = Rs. 183·5·4 ; and the value of the 'right' in this case will be (x.d.c.r. value) − (x.d.x.r. value) = Rs. 220 − 183·5·4 = Rs. 36·10·8

and the yield would then be $\frac{100 \times 25}{(183\cdot10\cdot8)} = 13.6$ per cent.

All these illustrations make it clear that a number of factors are to be taken into account in the calculation of yield on a particular share or security.

We may now conclude that in the interest of our country's economic development Stock Exchange refroms may be undertaken in conjunction with a change in the mental outlook of investors. Stock Exchanges, to fulfil their essential functions, should undertake every piece of reform with a view to provide adequate facilities to the investors and to guard their interests. At the same time investors should learn the principles of investment, and should make a cautious study of the Stock Market. Universities should encourage the study of the problems of investment and allied subjects and research work on such problems should be published from time to time ; and the investors and the business world should consider it an investment to endow liberally such research work and cooperate in carrying it out. Critical analysis or examination of the position of industries and their unbiassed study should be published from time to time to enable the investor to form sound conclusions.

APPENDIX I

Objects of the Calcutta Stock Exchange Association.

The objects for which the Association is established are :—

(a) To acquire and take over all or any of the assets and liabilities of the present unincorporated Association known as "the Calcutta Stock Exchange Association" and to conduct the affairs of the Stock Exchange founded by that Association and generally to support and protect the character, status and interest of brokers and dealers in stocks and shares on the Stock Exchange at Calcutta and elsewhere.

(b) To facilitate the transaction of business on the Stock Exchange and to make rules and bye-laws regulating the mode and conditions in any subject to which the business on the Stock Exchange shall be transacted and the conduct of the persons transacting the same and generally for the good order and government of members of the Association.

(c) To establish just and equitable principles, to settle points of practice and to decide upon any questions of business usage or courtesy between or among members of the Association.

(d) To regulate and fix the scale of commission and brokerage to be charged by members of the Association.

(e) To protect the members of the Association against persons whose character or circumstances render them unworthy of credit.

(f) To provide, regulate and maintain a suitable building, room or rooms for a Stock Exchange in Calcutta and with a view thereto to enter into the agreement referred to in clause 3 of the Articles of Association and to carry the same into effect with or without modification.

(g) To acquire by purchase, taking on lease, or otherwise, lands and buildings and all other property, movable and immovable, which the Association, for the purposes thereof, may from time to time think proper to acquire.

(h) To sell, improve, manage, develop, exchange, lease or let under lease, or sublet, mortgage, dispose of, turn to account or otherwise deal with, all or any part of the property of the Association.

(i) To construct upon any premises acquired for the purposes of the Association any building or buildings for the purposes of the Association and to alter, add to or remove, any building upon such premises.

(j) To borrow or raise any moneys required for the purposes of the Association upon such terms and in such manner and on such securities as may be determined and in particular by the issue of Debentures charged upon all or any of the property of the Association.

(k) To subscribe to, become a Member of, and cooperate with, any other Association, whether incorporated or not, whose objects are altogether or in part similar to those of this Association and procure from, and

communicate to any such Association such information as may be likely to forward the objects of this Association.

(*l*) To invest the moneys of the Association not immediately required in such securities as may from time to time be thought fit.

(*m*) To remunerate any person or Company for services rendered or to be rendered in placing or assisting to place or guaranteeing the placing of any Debentures or other securities of the Association.

(*n*) To establish and support or aid in the establishment and support of any Association funds, trusts and conveniences calculated to benefit members or employees or ex-employees of the Association or of member of the Association or the dependents or connections of any such persons and to grant pensions and allowances and to make payments towards insurance and to subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful objects.

(*o*) To undertake and execute any trusts the undertaking of which may seem to the Association desirable.

(*p*) To do all such other things as may be conducive to, or incidental to, the attainment of the above objects or any of them.

APPENDIX II

Joint Stock Companies at Work in India.

Year	No.	Paid up capital in lakhs of rupees
1910-11	2,304	6,405
12	2,465	6,938
13	2,552	7,210
14	2,744	7,656
15	2,545	8,019
16	2,476	8,502
17	2,513	9,089
18	2,668	9,911
19	2,789	10,661
20	3,668	12,321
21	4,708	16,446
22	5,189	23,055
23	5,190	25,979
24	5,211	26,533
25	5,204	27,553
26	5,305	27,696
27	5,526	27,691
28	5,830	27,644
29	6,330	27,931
30	6,919	28,634
31	7,328	28,268
32	7,997	28,590
33	8,715	28,647
34	9,434	30,080
35	9,842	30,404
36	10,384	27,949
37	10,951	28,577
38	10,657	27,917
39	11,114	29,041
40	12,119	32,620
41	13,097	38,257

Compiled from the Annual Market Reviews of Messrs. Prem Chand Roy Chand and Sons Ltd., Bombay.

APPENDIX III

Provision of the Indian Companies Amendment Act 1936, Section 105 B.

Under section 105 B, a company limited by shares may, if so authorised by its articles, issue preference shares which are at the option of the company, capable of being redeemed. Particulars of all redeemable preference shares must be included in every Balance Sheet of the company specifying *(a)* what part of the issued capital consists of such shares and *(b)* the date on or before which the shares are liable to be redeemed or, where no definite date is fixed for redemption, the period of notice to be given for redemption. In order to protect the interest of creditors, rigorous restrictions are imposed on the redemption of preference shares. The shares cannot be redeemed unless they are fully paid and they can be redeemed only *(a)* out of the proceeds of a fresh issue of shares made for the purpose, or *(b)* out of profits otherwise available for dividend or *(c)* out of sale proceeds of any property of the company.

If the shares are redeemed out of profits or sale proceeds a sum equal to the amount for redemption of shares must be transferred out of profits to a Reserve Fund, and the rules relating to reduction of share capital shall apply, as if the capital redemption reseve fund were paid up out of the proceeds of a fresh issue of shares, the premium payable on redemption must have been provided for out of the profits of the company before the shares are redeemed.

APPENDIX IV

Amendments in the Indian Companies Act relating to Banking Companies.

The Amending Act of 1944 provides that a Banking Company, whether incorporated in or outside British India, if incorporated after 15th January, 1937, shall comply with the following conditions within two years from the date of commencement of this Act *i. e.* ist July, 1944.

(a) That the subscribed capital of the company is not less than half the authorised capital, and the paid up capital not less than half of the subscribed capital ;

(b) That the capital of the company consists of ordinary shares only or ordinary shares and such preference shares as may have been issued before the commencement of the Indian Companies (Amendment) Act of 1944 ; and

(c) That the voting rights of all shares are strictly proportionate to the contribution made by the shareholders, whether a perference shareholder, or an ordinary shareholder, to the paid-up capital of the company.

APPENDIX V

Table showing the extent to which different classess of Shares and Debentures have been issued by Companies in India.

No.	Kinds of Companies	Total No.	Total Capital	Ordinary Share Capital	No. of Cos.	Preference Share Capital	No. of Cos.	Debentures	No. of Cos.
			Rs.	Rs.		Rs.		Rs.	
1	Banks	20	18,19,26,867	18,04,26,867	20	15,00,000	1	—	—
2	Jute Mills	61	19,16,41,660	12,99,63,960	61	6,16,47,200	49	2,13,68,000	20
3	Coal Companies	53	5,32,64,755	4,92,74,455	53	39,90,300	8	27,08,000	2
4	Cotton Mills	42	10,70,07,333	8,10,40,495	42	2,57,34,000	22	58,31,000	12
5	Tea Companies	155	6,77,78,251	6,19,88,251	155	57,90,000	29	25,23,100	8
6	Light Railway Companies	30	8,28,59,367	7,82,59,367	30	46,00,000	2	88,49,000	14
7	South India Rubber	26	1,28,89,070	1,22,05,770	26	6,83,300	6	1,12,500	1
8	Bombay Cotton Mills	42	14,07,32,213	12,13,07,713	42	1,42,49,000	9	1,74,97,000	8
9	Bombay Miscellaneous :—								
	(*a*) Cement	1	7,05,42,100	7,05,42,100	1	—	—	—	—
	(*b*) Electric Lighting	13	22,80,37,960	19,48,53,960	13	3,31,84,000	8	2,21,97,000	3
	(*c*) Engineering and Metal Works	5	11,16,37,250	3,01,12,500	5	7,99,31,000	3	—	—
	(*d*) Insurance	6	1,25,65,125	1,20,66,125	6	4 99,000	1	—	—
	(*e*) Miscellaneous	16	9,26,25,920	8,33,25,920	16	75,00,000	2	50,00,000	2
10	S. I. Miscellaneous								
	(*a*) Cement	1	12,41,470	12,41,470	1	—	—	6,16,000	1
	(*b*) Electric Supply	11	93,42,662	91,17,662	11	2,25,000	2	1,05,85,000	7
	(*c*) Engineering	2	17,78,570	17,78,570	2	—	—	1,71,000	1
	(*d*) Sugar	8	89,23,958	71,62,958	8	17,61,000	5	6,15,000	3
	(*e*) Trust and Insurance	1	2,50,000	2,50,000	1	—	—	—	—
	(*f*) Miscellaneous	15	1,83,99,306	1,27,51,306	15	55,48,000	2	7,40,000	2
11	Miscellaneous :—								
	(*a*) Mining	3	2,48,75,201	2,43,75,201	3	—	—	—	—
	(*b*) Cement Etc.	8	1,62,81,026	1,16,69,913	8	37,00,000	2	64,50,000	2
	(*c*) Chemical	6	1,00 62,060	86,62,060	6	14,00,000	2	1,50,000	1

No.	Kinds of Companies	Total No.	Total Capital	Ordinary Share Capital	No. of Cos.	Preference Share Capital	No. of Cos.	Debentures	No. of Cos.
23			Rs.	Rs.		Rs.		Rs.	
	(*d*) Electric Supply	25	2,69,73,670	2,63,73,670	25	6,00,000	1	5,67,000	1
	(*e*) Engineering	22	11,39,36,393	8,39,47,393	22	1,93,35,000	7	2,93,21,000	6
	(*f*) Sugar refineries etc.	30	4,38,84,383	3,83,82,383	30	53,27,000	10	1,03,25,000	11
	(*g*) Miscellaneous	43	7,88,52,219	4,89,21,298	43	2,84,90,000	17	90,90,600	8
	(*h*) Insurance	7	43,95,291	43,95,291	7	—	—	—	—
	(*i*) Floor Mills	5	53,55,300	44,04,400	5	9,50,900	2	—	—
	(*j*) Oil Companies	4	2,81,04,945	1,29,04,945	4	52,00,000	2	—	—
	(*k*) Paper Mills	8	2,19,65,000	1,77 15,000	8	42,50,000	4	61,07,000	5
	(*l*) Pressing Cos.	5	28,30,000	26,30,000	5	2,00,000	1	—	—
	(*m*) Real Property etc.	5	1,99,68,730	1,76,92,730	5	20,76,000	2	14,26,000	2
	(*n*) Tramway & Steamer	5	55,51,270	52,51,270	5	3,00,000	1	—	—

(Compiled from the information relating to Companies appearing in 'Capital' of July, 1944)

APPENDIX VI

Fall in the Values of Shares at the end of Amerian Civil War.

		Value in January 1865	Value in June 1865	Fall in value between Jan. and June 1865
Bombay Reclamation		51,000	7,500	43,500
Muzagaon ,,		11,500	2,000	9,500
Port Canning		10,000	1,000	9,000
East Victoria		14,000	3,000	11,000
Bombay Bank		2,400	1,000	1,400
Agra Bank		1,400	1,000	400
Mercantile		725	500	225
Central (Paid up value)	250	400	200	200
Royal ,,	200	280	80	200
Bank of India ,,	250	390	125	265

APPENDIX VII

Rise in the Value of Industrial and Fixed Interest-bearing (Government and Corporation Securities) During the First Great War.

(July 1914=100)

Year and month	Fixed Interest Securities	Industrial Securities	General Average
1919			
January	80	178	172
February	80	180	174
March	79	183	176
April	79	189	182
May	79	205	197
June	79	207	198
July	77	216	206
August	76	224	213
September	71	221	211
October	70	232	221
November	70	247	235
December	68	265	252
1920			
January	66	304	288
February	65	291	275
March	63	311	294
April	63	338	319
May	63	301	284
June	65	292	276
July	65	313	296
August	65	307	291
September	64	296	281
October	60	277	262
November	59	276	261
December	58	270	255
1921			
January	61	277	262
February	61	273	259
March	62	251	238
April	62	266	252
May	63	271	256
June	64	275	261
July	65	311	295
August	65	306	289
September	65	312	295
October	65	308	292
November	66	300	284
December	67	292	276

APPENDIX VII (Contd.)

Year and Month	Fixed Interest Securities	Industrial Securities	General Average
1922			
January	66	278	263
February	63	265	251
March	63	267	253
April	62	259	246
May	64	265	251
June	64	277	264
July	63	267	253
August	63	267	253
September	64	257	244
October	64	243	231
November	65	221	210
December	65	210	201
1923			
January	65	216	206
February	65	214	204
March	67	193	185
April	68	186	178
May	71	183	176
June	71	176	168
July	72	176	169
August	73	168	161
September	73	166	159
October	72	163	157
November	71	163	156
December			

Atlay Committee Report.

APPENDIX VIII

Minimum Prices fixed in the month of December, 1941.

Bombay Stock Exchange :— (Fixed on 15th. Dec., 1941)

	Forward Rs.	Cash Rs.
Tata Iron Deferred	1,600	1,525
Tata Iron Ordinary	300	285
Bombay Dyeing	1,150	1,100
Century	370	350
Central India	350	330
Colaba Land	180	170
Finlay	200	190
Gokak	240	220
Kohinoor	470	445
Morarji	450	425
Mysore	160	155
New Great	275	260
Phoenix	450	425
Simplex	200	180
Swan	215	200
Swadeshi	365	350
Andhra Valley	1,670	1,650
Bombay Tram	140	135
Tata Hydro	170	165
Tata Power	1,650	1,580
Alcock Ashdown	600	575
Associated Cement	150	145
Belapur	240	225
Bombay Burmah	300	285
Bombay Steam	285	270
Indian Bleaching	175	165
Premier Construction	107	100
Shivrajpur	30	28

APPENDIX VIII (Contd.)

Calcutta Stock Exchange :—(Fixed on 8th Dec., 1941)

	Rs.
Indian Iron	32- 0-0
Steel Corporation	19- 4-0
Burmah Corporation	3-12-0
Howrah	56- 8-0
Indian Copper	2- 0-0
Anglo India	330- 0-0
Reliance	53- 0-0
Gourepere	650- 0-0
Kamarhatty	465- 0-0
Barnagore	90- 0-0
Champdany	170- 0-0
Equitable	35- 0-0
Raneeganj	28- 0-0
Pench Valley	35- 0-0
North Damuda	5- 0-0
Indian Iron and Steel Ordinary	32- 0-0
Indian Copper Corporation	2- 0-0
Consolidated Tin	2- 0-0
Dalmia Cement Ordinary	13- 0-0
Dalmia Cement Deferreds	3- 8-0
Steel Corporation of Bengal Ordinary	19- 4-0
British Burmah Petroleum	2- 8-0

APPENDIX IX

Minimum Prices of Government Securities (March 2, 1942)

	Rs.
2¾ per cent 1948-52	93- 0-0
3 per cent 1946 Defence Bonds	97- 4-0
3 per cent 1951-54 Loan	94- 0-0
3 per cent 1963-65 Loan	88- 8-0
3½ per cent Rupee Paper	87- 0-0
3½ per cent 1947-50 Loan	97- 4-0
4 per cent 1943 "	101-12-0
4 per cent 1960-70 "	103- 0-0
4½ per cent 1955-60 "	107- 8-0
4½ per cent 1958-68 "	108- 0-0
3½ per cent 1954-59 "	98- 0-0
4 per cent 1948-53 "	102- 0-0
3 per cent 1949-52 "	95- 0-0
4½ per cent 1950-55 "	106- 0-0
3 per cent Rupee paper	75- 0-0
5 per cent Tax Free 1945-55	104- 0-0

APPENDIX X

Capital Control Order

Aims of the Government.

'At the present time there is the most serious shortage of many of the most essential goods and services, including not only iron and steel, machines and mill stores, but also of skilled labour and of transport facilites.' These shortages grow directly out of the war situation and cannot be wholly remedied so long as the war lasts.'

'In order to prevent a scramble for the available supplies which can only result in raising prices still further, it appears best to encourage those industrialists whose enterprises will directly assist in aiding the war effort or will be in a position to embark upon production of essential consumers goods at an early date. There is no public purpose in allowing priority to the manufacture of luxury goods, for instance, when the same capital equipment can go to the production of articles in more common use. Without control of capital issues, there is no guarantee that much supplies as are available will in fact go to the most suitable applicants.'

'Control thus serves in present conditions to further industrialization on sound lines. These remarks apply with even more force when the contemplated enterprise purports to be in a position to produce only at the end of the war. Such enterprises may also compete for plant, skilled labour etc., and they can certainly add nothing to immediate productivity. A special care is, therefore, required in dealing with them.'

'Consent will, however, be granted in suitable, cases for an issue of capital required to purchase plant or machinery for which an order has been placed for delivery after the war, subject to the condition that the money is invested in defence loans or other new Government securities and is kept so invested until it can be spent for the intended purpose.'

'Moreover. in so far as the so-called new undertakings merely take the form of offering to the public shares in enterprises which were already in existence but which have been converted to a joint stock basis (sometimes at extremely inflated prices) no net addition to the productive resources of the country is made at all, and the only effect is to swell the speculative boom which is already assuming an unhealthy form, and possibly to secure advantages in the matter of taxation at the expense of the general tax-prayer.'

'Secondly, it will be generally agreed that the battle against inflationary tendencies cannot be won unless there is a large-scale subscription to the various loans issued by the Government of India. Although part of the capital subscribed to new banks, investment trusts and Insurance Companies will no doubt flow into these loans, Government have to consider whether there is not a danger that a good deal of it may be diverted to speculative uses, such as the financing or hoarding of scarce commodities and loans to the Stock Exchange, which are definitely anti-social at the present time.'

APPENDIX XI

Prices at which American Securities were to be surrendered to the Reserve Bank. (By a notification issued on 10th March, 1941)

		Rupee Price
1.	American Power and Light Co. $ 5 cum. Stk. Shs. of no par value	109- 8-0
2.	American Telephone and Telegraph Co., Capital Stk. Shs. of $ 100	535-12-0
3.	Anaconda Copper Mining Co., Capital Stk. Shs. of $. 50	82- 8-0
4.	Bethlehem Steel Corporation, Common Stk. Shs. of no par value	259- 9-0
5.	Chrysler Corporation, Common Stk. Shs. of $. 5 ...	220- 3-0
6.	Electric Bond & Shares Co., Common Stk. Shs. of $. 5	11- 3-0
7.	Electric Bond & Shares Co., $. 5 cum. Pfd. Stk. Shs. of no par value	172- 8-0
8.	General Motors Corporation, Common Stk. Shs. of $. 10	141-13-0
9.	National City Bank of New York Capital Stk. Shs. of $. 12.50	89- 2-0
10.	Republic Steel Corporation, Common Stk. Shs. of no par value	62-10-0
11.	Socony Vaccum oil Co. Inc. Capital Stk. Shs. of $. 15	28- 3-0
12.	United States Steel Corporation, Common Stk. Shs. of no par value	190- 5-0
13.	National Power & Light Co., Common Stk. Shs. of no par value	22- 6-0
14.	U. S. A. 4¼ per cent Treasury Bonds 1947–52	401- 4-0
15.	U. S. A. 2¾ " " " 1948–51	364-14-0
16.	U. S. A. 3 " " " 1946–48	367- 4-0
17.	U. S. A. 4 " " " 1944–54	376- 4-0
18.	U. S. A. 2¾ " " " 1945–47	363- 9-0
19.	U. S. A. 2¾ " " " 1958–63	362-15-0
20.	U. S. A. 3⅛ " " " 1946–49	369- 4-0
21.	U. S. A. 3 " " " 1943–47	357-10-0
22.	U. S. A. 2½ " " " 1949–53	354- 9-0
23.	U. S. A. 2 " " Notes Series B–1942	345-10-0
24.	U. S. A. 2⅞ " " Bonds 1955–60	367- 8-0

(Vide page 56, Prem Chand Roy Chand—Annual Market Review, 1941)

APPENDIX XII

Form of application for Admission (Bombay Stock Exchange)

(Rule 9)

To

The Secretary,

The Native Share & Stock Brokers' Association, Bombay.

Sir,

Please acquaint the Governing Board that I am desirous of being admitted a member of the Association upon the terms of and under and subject in all respects to the Rules of the Association, which now are, or hereafter may be for the time being in force. I have read the rules of the Association.

I solemnly declare that

(1) I am a native of India,

or

I am a British subject and I have been a resident of Bombay Presidency for the last years.

(2) I am neither a member of, nor subscriber to, nor a shareholder or debenture holder in any other institution, association, company or corporation in India in which dealings in stocks or shares or Government securities are carried on, nor am I a partner with any person so engaged.

(3) I am a member of , but I undertake to sever my connection with that institution immediately on election.

(4) If admitted a member of the Association, I will not be interested directly or indirectly in any other institution in India dealing in shares or Government Securities during the time I remain a member of the Association, under penalty of immediate expulsion, nor will I enter into or remain or be engaged either directly or indirectly, in any business other than that of stocks, shares and like securities or of a financial broker, either as principal or employee, during the time I remain an active member of the Association under penalty of being declared no longer a member.

Full Name
Age
Address
Occupation
Reasons for giving up the present business

Date Yours faithfully,

We recommend Mr. as a fit person to be admitted a member of the Association.

Signature of two members
of not less than five years'
standing.

....

....

APPENDIX XIII

Letter of Declaration

(to be signed by a candidate for membership at the Bombay Stock Exchange)

To

The Members of the Governing Board,
The Native Share and Stock Brokers' Association,
Bombay.

Gentlemen,

Having been admitted a member of the Native Share and Stock Brokers' Association, and having handed to you, in terms of the Rules thereof, to be deposited in (name of Bank) in the names of the Trustees of the Association the sum of Rs. 20,000 and/or having transferred to the names of the Trustees of the Association the securities mentioned below, I hereby declare and agree that the said Security and any cash, Stock, Shares or other Securities that may be added to, or substituted for the said Security, by arrangement with you are to be held for you and on your account by the said Trustees, at your absolute discretion, without any right whatever on the part of myself, or those in my right, to call in question the exercise of such discretion on any ground whatever so that you may, at your absolute discretion, as aforesaid, apply and pay the same, or the proceeds thereof, or cause the same to be applied and paid, in case you shall, as you shall be fully entitled to do, sell the same, to or for behoof of any members of the Native Share and Stock Brokers' Association, to whom I, or any partnership of which I may be a member, may be indebted, under a claim or claims arising from any contracts made subject to the Rules of the Association during the continuance of my membership of the Association. If, on the completion of all transactions entered into before the termination of my membership or my ceasing to do forward business on the Exchange the said Security or proceeds thereof, shall not have been required for payment of my or my said partnership liabilities, as above provided, the same or any balance thereof, then remaining, will be returned to me and a receipt signed by me, that whatever Cash, Stock, Shares or other Securities, or balance thereof, is so returned to me is all to which I am entitled in terms hereof, shall be final and conclusive and bar enquiry of any kind at the instance of myself or any one in my right in respect thereof.

Yours faithfully,

Securities above referred to :—

APPENDIX XIV

Rules for the Guidance of the Governing Board of the Bombay Stock Exchange, Admitting Successor to Deceased Member under Rules 10 and 12.

In dealing with any application under Rules 10 or 12 the Board shall so far as practicable be guided by the following rules :—

(*a*) If the widow and all the sons who are of age and the guardian of the minor sons (if any) consent to such new card being issued to any one of the sons and if such son is otherwise qualified to be admitted as a member, preference shall be given to such son.

(*b*) If there be no widow then preference shall be given to any one of the sons who is recommended by all the sons who are of age and the guardian of minor sons (if any) and who is otherwise qualified to be admitted as a member.

(*c*) If there is a widow but no sons who are of age, preference shall be given to any one recommended by the widow.

(*d*) If there be no widow or sons preference shall be given to any one who is recommended by the daughters and who is otherwise qualified to be admitted as a member.

(*e*) If there be no widow, sons or daughters, preference shall be given to any person recommended by the parents and who is otherwise qualified to be admitted as a member.

(*f*) In any other event the said Board shall, subject to the Rules of the Association relating to the qualifications of candidates, have absolute discretion to issue the card to any other person the said Board may think fit.

No admission fee shall be charged to any person to whom a card is issued under these rules.

APPENDIX XV

Form of Card (of membership at the Bombay Stock Exchange)

(Rule 19)

No.

The Native Share and Stock Brokers' Association, Bombay.

This is to certify that Mr. has this day been admitted a Member of the Native Share and Stock Brokers' Association of Bombay according to the Rules of the Association and that he is from this day entitled to exercise all the rights and privileges and is subject to all the liabilities of such Membership and that he is and will be hereafter bound by the Rules of the Association which now are or may hereafter be for the time being in force.

President.

Bombay. Secretary.

APPENDIX XVI

Form of Reference by Non-Member desiring to submit their dispute to arbitration at the Bombay Stock Exchange.

(Rules 110 and 242)

{ Agreement Stamp

To

The Arbitration Committee,
The Native Share and Stock Brokers' Association.
Bombay.

In the Matter of a Complaint between
and

Gentlemen,

I do hereby consent to refer this matter to you and I undertake to be bound by the said reference, and to abide by and forthwith to carry into effect your award, resolution or decision in this matter, and I further undertake not to institute, prosecute or cause, or procure to be instituted or prosecuted, or take any part in proceedings, either civil or criminal, in respect of the case submitted. And I consent that the Arbitration Committee may proceed in accordance with the rules of procedure relating to arbitration between Members of the Association, and I undertake to be bound by the same. Also that the arbitrators or Arbitration Committee or the Board may proceed ***ex-parte*** after notice, and that it shall be no objection that the members of the said Committee or Board present vary during the enquiry or appeal, or that any of them may not have heard the whole of the evidence or appeal, and any award or resolution of the said Committee or the said Board signed by the Chairman for the time being shall be conclusive that the same was duly made or passed, and that the reference was conducted in accordance with the Rules of the Association relating to arbitration in disputes. And I hereby agree that this letter shall be deemed to be a submission to arbitration within the meaning of the Indian Arbitration Act 1899, or any statutory modification thereon.

APPENDIX XVII

(Application for Listing at the Bombay Stock Exchange)

(Address)..........................

....

(Date)..............................

The Secretary,

The Native Share & Stock Brokers' Association,

Bombay.

Dear Sir.

....(Name of Company)

In the conformity with the Listing Requirements of your Association, we hereby make application for permission to deal in Ordinary/Preference/ Deferred shares of the above Company.

We herewith hand you the following documents and give you the information you require as under :—

(Strike out where not applicahle)

(1) Memorandum and Articles of Association of the above named Company.

(2) Certified copy of the Trust Deed relating to Debentures Issue.

(3) Certified copies of Agreement relating to issue of shares credited as fully paid up, of all material contracts, Managing Agency and other agreements, concessions and similar other documents.

(4) Certified copies of all prospectuses and/or circulars and advertisements offering shares for subscription.

(5) Certified copy of of Directors' Report and Balance Sheet.

(6) Statement in Form A as required,

(7) " " " B " "

(8) " " " C " "

(9) " " " D " "

Yours faithfully,

APPENDIX XVII (a)

Form A.

(Strike out where not applicable)

1. Name of Company..................................
2. When incorporated.................
3. Where incorporated.................
4. Amount applied for :—
   (a) Ordinary Shares No............Distinctive Nos............
   (b) Preference ,, ,, ... ,, ,, ...
   (c) Deferred ,, ,, ... ,, ,, ...
5. Authorized capital........................
6. Unissued capital :—
   (a) Vendors Shares No............Amount............
   (b) Other ,, ,, ... ,, ...
7. Issued capital :—
   (a) Ordinary Shares No. ....Face Value............
   (b) °/₀ Cum. Pref. ,, ,, ... ,, ,, ...
   (c) Deferred ,, ,, ... ,, ,, ...
8. Paid-up capital :—
   (a) Ordinary Shares No............Face Value............
   (b) °/₀ Cum. Pref. ,, ,, ... ,, ,, ...
   (c) Deferred ,, ,, ... ,, ,, ...
9. The prospectus has been filed with the Registrar of Joint Stock Companies in............and has been advertised in :—

   Names of Bombay Papers { ....on...............
   ....on...............
   ....on...............

10. The subscription List has been kept open for............days.
11. Shares alloted to Vendors :—
    (a) Ordinary Shares No............Distinctive No............
    (b) °/₀ Cum. Pref. ,, ,, ... ,, ,, ...
12. Application invited from the Public for :—
    (a) Ordinary Shares No...............
    (b) °/₀ Cum. Pref. ,, ,, ...
    (c) Deferred ,, ,, ...
13. Shares applied for by the public :—
    (a) Ordinary Shares No...............
    (b) °/₀ Cum. Pref. ,, ,, ...
    (c) Deferred ,, ,, ...

14. Shares alloted to the public unconditionally :—

(a) Ordinary Shares No...............
(b) $^{\circ}/_{o}$ Cum. Pref. „ „ ....
(c) Deferred „ „ ....

15. Percentage of allotment to the public excluding Directors :—

(a) Ordinary Shares...............
(b) $^{\circ}/_{o}$ Cum. Pref. „ ....
(c) Deferred „ ....

16. Total number of allotees :—

(a) Ordinary Shares...............
(b) $^{\circ}/_{o}$ Cum. Pref. „ ....
(c) Deferred „ ....

17. The largest number of Shares applied for and alloted to any applicant:—

(a) Ordinary, applied for............Shares ; alloted............Shares.
(b) $^{\circ}/_{o}$ Cum. Pref. „ „ .... „ „ .... „
(c) Deferred, „ „ .... „ „ .... „

We hereby certify that the above statements are true and correct to the best of our knowledge and belief.

Managing Agents.

APPENDIX XVII *(b)*

Form B.

The Articles of Association of...

Company contain the following provisions :—

No. Articles No.

(1) "That none of the funds of the Company shall be employed in the purchase of and in loan upon the security of its own shares."....................

(2) "That the borrowing powers of the Board of Directors are limited to a reasonable amount not exceeding the issued capital."....................

(3) "That non-forfeiture of dividend is secured."....................

(4) "That there shall be no restriction on the transfers of fully paid-up shares."....................

(5) "That a common form of transfer shall be used."....................

(6) "That fully paid-up shares shall be free from all lien and in case of partly paid-up shares, the Company may have a lien only for all monies called or payable at a fixed time in respect of such shares."....................

(7) "That the Company in general meeting shall have power by Extra-ordinary Resolution to remove any Director before the expiration of his period of office."....................

Managing Agents.

APPENDIX XVII (c)

Form C.

(To be made out for class of Shares applied for)

....Company.

Distribution of.........................Shares on................................19 .

						Shares.
........................Holders	of	1- 100	Share	lots		....
....	"	"	101- 200	"	"	....
....	"	"	201- 300	"	"	....
....	"	"	301- 400	"	"	....
....	"	"	401- 500	"	"	....
....	"	"	501-1000	"	"	....
....	"	"	1000 up	"	"	....

The ten highest holders on the above date were as follows :—

1. ....Shares.
2. .... "
3. .... "
4. .... "
5. .... "
6. .... "
7. .... "
8. .... "
9. .... "
10. .... "

All Shares are free for sale and are held under no syndicate, agreement or control.

Certified Correct.

APPENDIX XVII *(d)*

Form D.

Agreement.

The.........................Company (hereinafter called the Company) in consideration of the listing of securities covered by the application, agree with the Native Shares and Stock Brokers' Association (hereinafter called the Association) as follows :—

1. To split share certificates, Letters of Allotment, and if a "Rights" issue, to split Letters of Rights, into smaller denominations in the same name and to have any such "splits" certified by an official of the Company and accept the same for registration on the endorsement of the Clearing House without insisting on the same being discharged by the shareholders.

2, To issue Definitive certificates within one month of the date of the lodgment of the transfer and to issue balance certificates, if required, within the same period.

3. To advise the Association by letter of all dividends recommended or declared and also of the date on which such dividends are payable, immediately a meeting of the Company's Board of Directors, has been held to fix the same

4. To notify the Association of any material change in the general character or nature of the Company's business.

5. To notify the Association of any changes in the Company's Directorate by death, resignation, removal or otherwise.

6. To forward to the Association copies of Statutory and Annual Reports and Audited Accounts as soon as issued.

7. To forward to the Asssociation copies of all notices sent to the shareholder and to file with the Association certified copies of Resolutions of the Company as soon as such Resolutions have become effective.

8. To notify the Association promptly in the event of the re-issue of forfeited shares or securities or the issue of shares or securities held in reserve for future or the issue or creation in any form or manner, of new shares or securities or of any other rights, privilege or benefits to subscribe to ; and to give the shareholders reasonable time within which to record their interests and to exercise their rights, and to issue in the first instance and all such shares or securities or rights *pro rata* to the existing shareholders in the form approved by the Board of Directors of the Association and to give to the Association at least fifteen day's notice in advance of the closing of the transfer books for the purpose.

9. To make an application to the Association for the listing of any new issue of shares or securities mentioned in clause (8).

10. Not to close the transfer books on such days as may be inconvenient to the Association for the purpose of settlement of transactions and of which three months' notice shall have been given by the Association to the Company.

The Common Seal of the said.

....
Co., Ltd. was affixed hereto on the
.........................day of..............
.........19 . in the presence of........
....
....
two of the Directors of the said. Seal
.Co., Ltd.

APPENDIX XIX

Distribution of Companies quoted at the Calcutta Stock Exchange.

Class of Companies	No. of Cos.	No. of Issues	Ord. Issues	Pref. Issues	Defd. Issues.
Bank	13	19	16	3	—
Railways	20	23	21	2	—
Coal Cos.	52	62	54	8	—
Cotton Mills	22	39	22	15	2
Jute Mills	61	115	62	53	—
Mining Cos.	10	10	10	—	—
Cement, Pottery	5	9	5	2	2
Chemical	9	13	9	4	—
Electric	28	31	28	3	—
Engineering	25	36	25	9	2
Flour Mills	4	4	4	—	—
Insurance Cos.	10	10	10	—	—
Miscellaneous	48	71	48	19	4
Oil	6	9	6	3	—
Paper Mills	8	16	8	8	—
Pressing Cos.	6	8	6	2	—
Real Estates	6	13	10	3	—
Rubber plantations	45	46	45	1	—
Saw Mills	3	4	3	1	—
Shipping Cos.	7	9	7	2	—
Sugar Mills	40	54	40	13	1
Tea Plantations	133	155	135	20	—
Total	561	756	574	171	11

Distribution of Companies quoted at the Bombay Stock Exchange.

Class of Companies	Bombay	Also known to Calcutta.
Railways	12	5
Banks	15	7
Insurance	20	2
Cotton	55	1
Sugar	8	1
Steel & Metal Cos.	7	2
Engineering & Mining	10	3
Chemicals	5	—
Miscellaneous	15	3
Total	147	24

A. K. Sur—Savings and Investments in India.

APPENDIX XX

(Prescribed lots)

Bombay Stock Exchange :—

Face value not exceeding	Rs. 10/-	Lots of 50 shares.	
Face value exceeding	Rs. 10/-	but not exceeding Rs. 25/-	25 shares
,, ,, ,,	Rs. 25/-	,, ,, ,, Rs. 50/-	10 ,,
,, ,, ,,	Rs. 50/-	,, ,, ,, Rs. 100/-	5 ,,
,, ,, ,,	Rs. 100/-		1 Share.

Calcutta Stock Exchange :—

In case of Share Transactions where no mention is made at the time of transaction as regards lots the lots, are to be considered as follows :—

For Rs. 500	paid up delivery to be made in lots of	5 shares.
For Rs. 375	,,	25 ,,
For Rs. 300	,,	25 ,,
For Rs. 100	,,	50 ,,
For Rs. 50	,,	100 ,,
For Rs. 25	,,	100 ,,
For Rs. 10	,,	100 ,,
For Rs. 5	,,	100 ,,
For Rs. 2-8	,,	100 ,,
For Re. 1	,,	25 ,,
For £. 10	,,	25 ,,
For £. 5	,,	25 ,,
For £. 1	,,	100 ,,
For Shs. 8	,,	100 ,,

Rubber shares of Dollar 1 paid-up delivery to be made in lots of 500 shares.

Madras Stock Exchange :—

(*a*) Unless otherwise specified at the time of closing the transaction, it shall be deemed to have been agreed between the parties to give and take delivery of shares or debentures only in market lots as defined below :

Shares of the face value not exceeding Rs. 10 one certificate and one Transfer for every 100 shares.

Shares of the face value exceeding Rs. 10 but not exceeding Rs. 49 one Certificate and one Transfer for every 50 shares.

Shares of the face valud exceeding Rs. 49 but not exceeding Rs. 99 one for every 10 shares.

Imperial Bank of India fully paid share ; one certificate one Transfer and one Transmission Form for each share ; for partly paid shares one Certificate, one Transfer and one Transmission form for each lot of 5 shares.

(*b*) If delivery is made in lots smaller than those prescribed above, the seller may require the buyer to take delivery of the shares, but the seller shall bear the additional stamp duty and transfer fees to consolidate the shares into a market lot. The buyer however shall not be bound to take delivery on the above terms if the lots delivered can-not be rounded off into market lots as defined in clause (a) above.

FORM A.

APPENDIX XXI

Appendix H (Bombay Stock Exchange)

No..............

Contract Note issued by Members acting for constituents as Brokers.

Name of the Firm

Names of Partners

Stamp as required under Article 43 (b) or 43 (b) (b) of Schedule I to the Indian Stamp Act.

To

Sir,

I/We have this day bought by your order and on your account the following securities for............Settlement.					I/We have this day sold by your order and on your account the following securities for.........Settlement				
Quantity	Kind of Security	Purchase rate	Add Brokerage	Rate including Brokerage	Quantity	Kind of Security	Sale rate	Less Brokerage	Rate excluding Brokerage

This contract is made subject to the Rules and Regulations of the Native Share and Stock Brokers' Association. Brokerage has been charged as stated.

Yours faithfully,

Bombay, 19 .

Member (a) of the Native Share and Stock Brokers' Association.

FORM B.

Contract Notes issued by Members acting with constituents as Principals.

No..............

Name of the Firm

Name of Partners

Stamps as required under Article 5 (a) (a) of 5 (b) (b) Schedule I to the Indian Stamp Act.

To

Sir,

I/We have this day sold to you for............Settlement.			I/We have this day bought from you for............Settlement.		
Quantity	Kind of Security	Rate	Quantity	Kind of Security	Rate

The contract is made subject to the Rules and Regulations of the Native Shares and Stock Brokers' Association.

Yours faithfully,

Bombay, 19 ,

Member (a) of the Native Share and Stock Brokers' Association.

APPENDIX A

Contract Note issued by Members acting for Constituents as Brokers.

Name of the Firm

Names of Partners

FORM A

No...........

To...

Sir,

I/We have this day done by your order and on your account for Ready Delievery the following transactions

Your Purchases			Your Sales		
Quantity	Kind of Security	Rate	Quantity	Kind of Security	Rate

This contract is made subject to the Rules and Regulations of the Native Shares and Stock Brokers' Association. This is a Net Contract. Brokerage according to the Rules is included in the price.

Yours faithfully,

Bombay,..................19 .

Member (s) of the Native Share and Stock Brokers' Association.

Contract Note issued by Members acting with Constituents as Principals.

Name of the Firm

Names of Partners FORM B No............

To..

Sir,

I/We have this day sold to you for Ready Delivery

I/We have this day bought from you for Ready Delivery

Your Purchases			Your Sales		
Quantity	Kind of Security	Rate	Quantity	Kind of Security	Rate

The Contract is made subject to the Rules and Regulations of the Native Share and Stock Brokers' Association.

Yours faithfully,

Bombay,................ 19

Member (s) of the Share and Stock Brokers' Association.

APPENDIX XXII

Minimum brokerage :

Bombay Stock Exchange :—

Brokerage shall be charged by Members on the purchase or sale of Stock Shares and like securities at not less than the following rates :

There shall be a minimum charge of Rupee one on each transaction.

(*a*) On debentures of Railways and debentures of Joint Stock Companies generally 1/2 per cent on stock.

(*b*) On the contract price of shares of shares of joint Stock Companies

when such price does not exceed Rs. 10		Rs. -/2/- per share
Exceeds Rs. 10 but does not exceed	25	Rs. -/4/- ,, ,,
25	50	Rs. -/8/- ,, ,,
50	75	Rs. -/12/- ,, ,,
75	100	Rs. 1/-/- ,, ,,
100	250	Rs. 1/4/- ,, ,,
200	300	Rs. 1/8/- ,, ,,
300	400	Rs. 2/-/- ,, ,,
400		-/8/- for every hundred rupees

(c) Securities	Brokerage.
Securities of the Government of India and Provincial Governments	1/16 per centum on stock of the Face value of Rs. 25,000 or over. 1/8 per centum on stock of the face value under Rs. 25000
Debentures and stock of Port Trusts, Municipal Corporations and other Securities	1/8 per centum on stock

This scale shall not apply to underwriting or the placing new issues.

Madras Stock Exchange :

Government of India Promissory Notes and Local Government Securities On face value of Rs. 25,000 or under ... ... 1/8th per cent
do over Rs. 25,000 ... ... 1/16th per cent

Minimum brokerage per contract Rs. 2/8/-

Shares of Joint Stock Companies.

Per share or debenture sale value under	Rs. 5	Rs. 0-1-0
Above 5 and not exeeeding	Rs. 10	0-2-0
10	25	0-4:0
25	50	0-8-0
50	75	0-12-0
75	100	1-0-0
100	150	1-8-0
150	250	2-0-0
250	350	2-8-0
350	500	3-0-0
500	650	3-8-0
650	750	4-0-0
750	1,000	5-0-0
1,000	1,500	7-8-0
1,500	2,000	10-0-0
2,000	2,500	12-8-0
2,500	3,000	15-0-0

Minimum brokerage per contract ... ... Rs. 2-8-0

Calcutta Stock Exchange :—

The following brokerage charges have been determined

On 3% and 3½% Government Papers ... 1/16th %

On other Government securities ... 1/8th %

N. B. The minimum charge of brokorage on Government securities is Re. 1/-

On Municipal and Port Trust, Debentures ... ¼%

On Joint Stock Debentures ... ½%

For all shares of nominal value below Rs. 75/-	Annas -/2/- per share upto Rs. 5/- consideration money, Annas -/4/- per share upto Rs. 50/- Consideration Money Annas -/8/- per share above Rs. 50/- Consideration Money Re. 1 per share above Rs. 100/- but upto Rs. 200 Consideration Money Annas -/8/- per share for every Rs. 100/- (or part thereof of the total) Consideration Money.
For all shares of Rs. 75/- nominal value of over	Rupee 1/- per share upto Rs. 200/- consideration Money. Above Rs. 200- Consideration Money annas -/8/- per share for every Rs. 100 (or part thereof of the total consideration Money)

Sterling shares are to be calculated on the basis of 1s. 6d. exchange.

APPENDIX XXIII

Call Money Rates (BOMBAY.)

Figures refer to the last week of the month.

(Collected from the files of Capital)

Year	Call Money Rate %	Year	Call Money Rate %	Year	Call Money Rate %
1935		1938		1941	
April	3- 8 0	Jan.	0-12-0	Jan.	o- 4-o
May	3- 8-0	Feb.	0-12-0	Feb.	o- 4-o
June	2- 0-0	March	1- 0-0	March	o- 4-o
July	1- 8-0	April	0-12-0	April	o- 4-o
Aug.	0-12-0	May	0-12-0	May	o- 4-o
Sept.	0- 4-0	June	0- 8-0	June	o- 4-o
Oct.	0- 4-0	July	0- 8-0	July	o- 4-o
Nov.	0- 4 0	Aug.	0- 4-0	Aug.	o- 4-o
Dec.	0- 4-0	Sept.	0- 4-0	Sept.	o- 4-o
		Oct.	0- 4-0	Oct.	o- 4-o
		Nov.	0- 8 0	Nov.	o- 4-o
		Dec.	1-12-0	Dec.	o- 8-o
1936		1939		1942	
Jan.	0- 4-0	Jan.	2- 0-0	Jan.	o- 4-o
Feb.	0- 4-0	Feb.	1- 0-0	Feb.	o- 4-o
March	0- 8-0	March	1- 8-0	March	o- 8-o
April	0- 4-0	April	1-12-0	April	o- 8-o
May	0- 4-0	May	0-12-0	May	o- 4-o
June	0-12-0	June	0-12-0	June	o- 4-o
July	0- 8-0	July	0- 8 0	July	o- 4-o
Aug.	0- 4 0	Aug.	0-12-0	Aug.	o- 4-o
Sept.	0- 8-0	Sept.	0-12-0	Sept.	o- 4-o
Oct.	0- 8-0	Oct.	0-12-0	Oct.	o- 4.o
Nov.	0- 8-0	Nov.	0-12-0	Nov.	o 8-o
Dec.	1- 0-0	Dec.	2- 0-0	Dec.	o- 4-o
1937		1940		1943	
Jan.	1- 8-0	Jan.	1- 8-0	Jan.	o- 4-o
Feb.	1- 0-0	Feb.	1- 4-0	Feb.	o- 4-o
March	1- 4-0	March	1- 8-0	March	o- 4-o
April	0-12-0	April	0-12-0	April	o- 4-o
May	1- 0-0	May	1- 0-0	May	o- 4-o
June	0-12-0	June	0-12-0	June	o- 4-o
July	0- 4-0	July	0- 8-0	July	o- 4-o
Aug.	0- 8-0	Aug.	0- 8-0	Aug.	o- 4-o
Sept.	0- 8-0	Sept.	0- 8-0	Sept.	o- 4-o
Oct.	0- 8-0	Oct.	0- 8-0	Oct.	o- 4-o
Nov.	0- 8-0	Nov.	0- 8-0	Nov.	o- 4-o
Dec.	0-12-0	Dec.	0- 8-0	Dec.	o- 4-o

APPENDIX XXIV

Indices of Notes in circulation and Security Prices

Base—August 1939 = 100

Month & Year	Index of Notes in Circulation	Capital Stock & Share Index	Month & Year	Index of Notes in Circulation	Capital Stock & Share Index
1939 Aug.	100	100	1943 Jan.	337.63	170.9
Sept.	113.42	122.4	Feb.	343.43	176.3
Oct.	118.11	125.6	March	359.65	187.0
Nov.	123.04	144.1	April	378.78	198.2
Dec.	131.88	149 5	May	393.70	194.9
			June	404.28	204.0
1940 Jan.	132.95	135.0	July	413.88	193.0
Feb.	133.90	132.3	Aug.	422.42	194.4
March	133.35	131.9	Sept.	424.72	202.6
April	133.94	132.8	Oct.	437.79	272.8
May	138.93	125.9	Nov.	444.05	276.9
June	138.04	—	Dec.	470.00	274.8
July	133.00	121.3			
Aug.	129.40	118.7	1944 Jan.	475.40	232.7
Sept.	128.11	118.8	Feb.	484.90	228.2
Oct.	127.81	122.7	March	493.70	229.7
Nov.	128.09	126.2	April	507.20	225.7
Dec.	134.86	128.8	May	503.70	237.9
			June	520.60	241.7
1941 Jan.	136.98	128.7	July	575.40	247.8
Feb.	139.45	130.6	Aug.	578.80	242.5
March	144.03	137.5	Sept.	526.70	228.1
April	149.32	122.4	Oct.	537.50	235.0
May	152.59	125.6	Nov.	543.62	239.6
June	154.80	132.8	Dec.	564.98	243.9
July	152.61	139.7			
Aug.	154.55	142.8	1945 Jan.	578.00	247.7
Sept.	159.94	156.1	Feb.	592.77	243.8
Oct.	164.04	158.4	March	606.45	242 4
Nov.	171.85	178.6	April	679.92	240.0
Dec.	187.60	152.0	May	626.09	241.0
			June	635.07	248.0
1942 Jan.	199.23	148.6	July	630.40	267.8
Feb.	212.24	143.7	Aug.	636.33	253.7
March	229.23	142.0	Sept.	637.74	253.9
April	231.34	139.6	Oct.	645.72	256.5
May	241.39	147.5	Nov.	656.42	269.4
June	247.74	145.3			
July	252.11	147.4			
Aug.	265.11	146.8			
Sept.	275.33	157.7			
Oct.	287.72	162.4			
Nov.	302.06	170.3			
Dec.	318.83	167.4			

N. B. Notes in circulation—Collected from the files of 'Commerce' and refer to the last week of the month. as shown in the weekly Balance Sheets

APPENDIX XXV

Indices of (a) Commodity Prices (Economic Adviser to the Govt. of India)
(b) Gold Prices
(c) Silver Prices
(d) Share Prices.

Base—August, 1939 = 100

Month & Year		Commodity Prices	Gold Prices	Silver Prices	Share Prices (Capital Stock & Share Indices)
1939	Sept.	108.2	109.5	124.5	122.4
	Oct.	113.3	110.4	124.6	125.6
	Nov.	125.6	111.5	129.7	144.1
	Dec.	137.8	111.9	130.7	149.5
1940	Jan.	137.1	112.5	125.3	135.0
	Feb.	134.4	112.5	119.7	132.2
	Mar.	129.3	113.8	121.7	131.9
	April	126.7	112.9	121.7	132.8
	May.	123.8	127.3	130.4	125.9
	June	114.1	116.9	131.4	—
	July	111.3	111.1	131.9	121.3
	Aug.	110.4	111.9	133.4	118.7
	Sept.	110.5	112.4	133.1	118.8
	Oct.	111.8	111.7	131.3	122.1
	Nov.	114.0	111.9	129.5	126.2
	Dec	115.2	111.9	133.3	128.8
1941	Jan.	114.7	112.2	132.2	128.7
	Feb.	112.1	112.9	133.1	130.6
	March	114.9	116.5	133.1	131.5
	April	117.7	115.1	132.8	122.5
	May	118.7	112.9	131.8	125.6
	June	126.4	112.9	131.9	132.8
	July	136.2	112.9	132.8	139.7
	Aug.	141.0	112.4	132.6	142.8
	Sept.	143.8	112.9	132.6	156.1
	Oct.	142.9	112.5	132.6	158.4
	Nov.	145.0	116.9	132.8	178.6
	Dec.	143.3	126.9	142.9	192.0
1942	Jan.	143.7	125.4	148.8	148.6
	Feb.	145.0	130.9	155.7	143.1
	March	144.2	141.3	181.0	142.0
	April	146.1	131.2	174.1	139.6
	May	147.4	120.5	170.7	141.5
	June	155.2	131.3	174.8	145.3
	July	159.9	138.0	177.7	147.4
	Aug.	160.0	142.7	179.4	146.8
	Sept.	164.3	154.5	191.4	157.1
	Oct.	171.4	159.9	215.0	162.4
	Nov.	170.0	175.4	231.0	170.3
	Dec.	184.7	173.0	217.1	167.4

APPENDIX XXV (Contd.)

Month & Year		Commodity Prices	Gold Prices	Silver Prices	Share Prices (Capital Stock & Share Indices)
1943	Jan.	190.4	177.0	212.5	170.9
	Feb.	197.6	176.8	217.0	176.3
	March	213.5	186.4	230.3	187.0
	April	227.9	215.3	249.9	198.2
	May	336.7	235.6	276.3	194.9
	June	241.7	221.4	263.2	204.0
	July	239.3	200.3	236.4	193.0
	Aug.	238.0	194.2	230.3	194.4
	Sept.	236.4	195.9	250.0	202.6
	Oct.	240.8	216.4	263.6	212.8
	Nov.	240.1	165.9	258.9	216.9
	Dec.	235.7	167.0	246.7	214.8
1944	Jan.	237.8	191.3	254.6	232.1
	Feb.	236.7	189.6	267.9	228.2
	March	236.3	215.3	299.4	229.7
	April	238.3	204.6	291.3	225.1
	May	241.2	193.1	282.4	231.9
	June	244.1	195.6	273.1	241.7
	July	244.2	207.1	291.1	247.8
	Aug.	243.9	200.9	283.1	242.5
	Sept.	242.3	176.6	255.5	228.1
	Oct.	241.9	188.9	247.3	235.0
	Nov.	246.4	171.1	260.9	239.6
	Dec.	249.2	197.4	279.7	243.9
1945	Jan.	250.3	176.7	253.2	247.7
	Feb.	248.8	197 7	270.4	243.8
	March	247.8	192.6	268.3	242.4
	April	242.2	200.9	279.3	240.0
	May	233.1	206.6	279.0	241.0
	June	237.4	206.3	277.0	248.0
	July	244.4	210.3	287.4	267.8
	Aug.	244.1	198.9	259.4	253.7
	Sept.	242.2	205.6	285.2	253.9
	Oct.		208.3	281.7	256.5
	Nov.		225.2	283.5	269.4

N. B. Gold and Silver Price Indices—Prices refer to the last week of the month, collected from the files of Commerce.

APPENDIX XXVI

Bullion and Security Prices

	20-8-44	1-9-44	8-9-44	20-9-44
	Rs.	Rs.	Rs.	Rs.
Gold Bullion	75- 9-0	74-14-0	69-14-0	63- 2-0
Sovereign	51- 8-0	51- 8 0	46-12-0	41- 4-0
Silver	135- 0-0	131- 0-0	124- 8-0	119- 8-0
Security Prices :—				
	23-8-44	6-9-44	13-9-44	20-9-44
	Rs.	Rs.	Rs.	Rs.
3½°/₀ Govt. Paper	99- 9-0		99- 4-6	99- 9-0
Reserve Bank	135- 8-0	133- 0-0	131- 0-0	130- 8-0
Bombay Dyeing	1,868-12-0	1,712- 8-0	1,737- 8 0	1,730- 0 0
Century Mills	895- 0-0	760- 0-0	770- 0-0	760- 0-0
Finlay	307- 0-0	265- 0-0	279- 0-0	275- 0-0
Associated Cements	238- 4-0	227-12-0	229- 0-0	226- 0 0
Indian Iron & Steel	38-14-0	37-12-0	37- 7-0	37-15-0
Tata Steel Ord.	407- 0-0	375- 8-0	384- 8-0	380- 0-0
Tata Steel Defds.	2,187- 8-0	2,015- 0-0	2,120- 0-0	2,127- 8-0*
Cawnpore Textiles	13- 6-0	13- 9-0	12-11-0	12-11-0
Elgin	70-12-0	70- 8-0	64-12-0	63-12-0
Muir	430- 0-0	425- 0-0	400- 0-0	375- 0-0
Anglo India Jute	444- 0-0	438- 0 0	435- 0-0	435- 0-0
Bengal Jute	32- 2-0	32- 4-0	31- 0-0	31- 0-0
Kamarhatty	676- 0-0	648- 0-0	635- 0 0	552- 0-0
Amalgamated Coal	47- 0-0	44 0-0	43- 8-0	45- 8-0
Bengal Coal	646- 0-0	632- 0 0	620- 0-0	616- 0-0
Cawnpore Sugar	42- 0-0	41-14-0	37-12 0	37- 8-0
Raza Sugar	44- 4-0	44- 0 0	36- 0-0	40- 0-0
Steel Corporation	32-11-0	32-14-0	30- 9-0	30- 0-0
Bengal Paper	225- 8-0	228- 0-0	223- 0-0	222- 0-0
Dalmia Cement	18-12-0	18- 8-0	17-12-0	16-10-0
Orient Paper	31- 6-0	30- 4-0	27- 8-0	26-14-0

* 2,070 lowest of the week.

(Collected from the files of Commerce)

APPENDIX XXVII

Price movements indicating the effect of allied advance.

	On 6-9-44	On 30-8-44	High 1943	Low 1943
	Rs.	Rs.	Rs.	Rs.
Textiles :—				
Appollo	3- 7	3-12	7- 9	4- 5
Bombay Dyeing	1,712- 8	1,806- 4	2,190- 0	1,627- 8
Century	760- 0	810- 0	1,005- 0	565- 0
Colaba	194- 0	210- 0	312- 0	209- 0
Finlay	265- 0	292 0	438- 0	286- 0
Gokak	282- 0	305- 0	437- 0	313- 0
Kohinoor	550- 0	593- 0	1,000- 0	560- 0
Meyer Sassoon	175- 0	191- 4	282- 8	162- 8
New City	341- 4	370- 0	540- 0	350- 0
New Great	353- 0	388- 0	577- 0	367- 0
Simplex	218- 0	242- 8	365 0	269- 0
Swadeshi	476- 0	520- 0	692- 0	445- 0
Engineering :—				
Alcock Asdown	405- 0	450- 0	1,010- 0	475- 0
Tata Ordinary	375- 0	398- 0	417- 8	322- 8
Tata Deferred	2,015- 0	2,125- 0	2,095- 0	1,507- 8
Miscellaneous :—				
A. C. C.	222- 8	233-12	240 8	205- 0
Belapur	231- 0	243- 0	265- 0	218- 0
Tata Chemical	19- 2	24- 8	38-10	24- 2
Tata Oil	71- 8	78- 8	101- 8	72- 0

(From the Files of 'Commerce')

APPENDIX XXVIII

(Prices indicating the effect of E.P.T. Ordinance, and a ban on Forward Trading in current Cotton Crop.)

	1st week of May	2nd week of May	17th May	*18th May	**19th May
Cotton Mills :—					
Bombay Dyeing	2,102- 4	2,085- 0	2,120- 0	2,052- 8	1,925- 0
Century	950- 0	937- 0	945- 0	922- 0	830- 0
Central India	539- 0	524- 0	526- 0	522- 0	462- 0
Colaba	291- 0	299- 0	300- 0.	293- 0	265- 0
Kohinoor	952- 0	961- 0	960- 0	934- 0	848- 0
New City	536- 4	482- 8	485- 0	470- 0	470- 0
New great	539- 0	527- 0	529- 0	510- 0	445- 0
Model	440- 0	433- 2	. 421- 4	410- 0	385- 0
Finlay	427- 0	422- 0	405- 0	392- 0	360- 0
Swan	402- 0	392- 0	370- 0	360- 0	332- 8
Apollo	7- 6	7-10	6-14	6- 9	5-13
E.D.Sassoon(Defd.)	4-13	4-12	4-13	4-10	3-15
Engineering :—					
Alcock Ashdown	972- 8	927- 8	925- 0	907- 8	907- 8
Tata Iron (Ordy)	395- 8	386- 8	393- 0	393- 0	384- 0
Tata Iron (Defds)	1,950- 0	1,897- 8	1,930- 0	1,916- 4	1,880- 0
Miscellaneons :—					
Associated Cements	237- 8	238- 0	239- 0	237-12	235- 0
Belapur	248- 0	246- 0	243- 0	242- 0	236- 0
Scindia	33-12	33- 0	33- 8	32 8	31-10
Tata Chemicals	38-10	38- 4	37- 8	37- 2	34-14
Tata Oil	99- 8	94- 0	92- 8	90- 0	89- 8
Banks :—					
Imperial F. Paid	1,762- 8	1 755- 0	1,755- 0	1,755- 0	1,762- 8
Imperial P. Paid	435- 0	437- 8	437- 8	437- 8	437- 8
Central	65- 6	65- 0	65- 6	65- 0	64-12
Reserve	110- 0	110- 0	110- 0	110- 0	110- 0
Public Utilities :—					
Andhra Power	1,852- 8	1,850- 0	1,837- 8	1,825- 0	1,825- 0
B. E. S. T.	158- 0	153- 0	152- 0	152- 0	150- 0
Tata Power	1,785- 0	1,770- 0	1,782- 8	1,780- 0	1,785- 0

* Date on which E.P.T. Ordinance was issued.
** Date when a ban on forward trading in Current Cotton Crop was imposed.

(Commerce—22nd May, 1943, page 667)

APPENDIX XXIX *(a)*

Budget effects on Prices

	Prices on 16th Feb. on the announcement of railway budget	Prices after the publication of general budget on 29th Feb. 1940
	Rs.	Rs.
Tata Deferreds	1775	2100
Tata Ord.	343	395
Dyings	860	957-8
Centuries	259	306
Kohinoors	326	383
New Great	299	363
Associated Cements	113-8	124
Belapur	192-8	220

APPENDIX XXIX *(b)*

Effect of Bombay Explosion.

	14-4-44 (Preceding Fire)	19-4-44 (Day of Heavy Sales)	20-4-44 (Closing)
	Rs.	Rs.	Rs.
Insurance :—			
Indian Mercantile	85	56	58- 8
Jupitar General	38	26- 8	27- 4
Vulcan	17-14	12	12-12
New India	89- 8	73	74- 8
Banks :—			
Bank of India	181	176	171
Central Bank	76- 4	72- 8	70- 8
Union Bank	9-12	9	8-12
Imperial Bank F. Paid	1900	1895	1885
Imperial Bank P. Paid	491-14	487- 8	482- 8
Bank of Baroda	137-	138- 8	137

APPENDIX XXX

(Price Movements, indicating the effect of Budget Proposals)

	Pre-budget 29th. Feb.	After-budget 1st March	After-budget 2nd March
	Rs.	Rs.	Rs.
Cotton Mills :—			
Bombay Dyeing	2,087- 8	2,087- 8	2,045- 0
Century Mills	1,062- 0	1,075- 0	985- 0
Central India	448- 0	437- 0	420- 0
Edward Sassoon	750- 0	735- 0	690- 0
Finlay	347- 0	342- 0	327- 0
Gokak	365- 0	363- 0	352- 0
Kohinoor	711- 0	712- 0	686- 0
New Great	447- 0	441- 0	419- 0
Simplex	280- 0	268- 0	251- 0
Swadeshi	604- 0	590- 0	569- 0
Iron and Steel :—			
Tata Iron and Steel			
Ordinaries	414- 0	417- 0	412- 0
Deferreds	2,107- 8	2,146- 0	2,105- 0
Miscellaneous :—			
Associated Cements	218- 0	218- 0	217- 0
Belapur	235- 0	240- 0	237- 0
Premier Construction	223- 0	220- 2	215- 0
Scindia Steam	35-12	35- 2	34- 8
Shivrajpur	74- 0	74- 0	65- 0
Tata Oils	80- 8	80- 0	80- 0
Tata Chemicals	31- 4	32- 0	31- 4

Commerce, 4th May, 1944.

APPENDIX XXXI

Table indicating price movement on the announcement of the Finance Members' intention regarding the limitation of Dividends.

	Last week's closing 17-3-'43	Day of selling pressure closing 20-3-'43	This week's closing 24-3-'43
Cotton Mills :—			
Bombay Dyeing	2,015- 0	1,850- 0	1,875- 0
Central India	502- 0	448- 0	463- 0
Centuries	822- 0	732- 0	751- 0
E. D. Sasoon Ord.	18-12	17- 0	18- 2
Finlay	385- 0	345- 0	363- 0
Gokak	415- 0	370- 0	388- 0
Kohinoor	808- 0	723- 0	734- 0
Simplex	328- 0	281- 0	298- 0
Engineering :—			
Alcock Ashdown	746- 4	727- 8	737- 8
Tata Iron & Steel Ordinary	392- 0	364- 0	376- 0
Tata Iron & Steel Deferred	1,905- 0	1,777- 8	1,840- 0
Miscellaneous :—			
Associated Cement	225- 0	218- 0	221- 0
Belapur	240- 0	227- 0	229- 0
Scindia	29- 0	27-12	28- 4
Shivrajpur	72- 0	71- 8	71- 8
Tata Chemicals	33- 2	31- 4	32-14
Tata Oil	87- 8	86- 0	86- 0
Banks :—			
Imperial F. Paid	1,755- 0	1,740- 0	1,750- 0
Imperial P. Paid	433-12	432- 8	432- 8
Central	63- 0	62- 8	63- 0
Bank of India	164- 8	164- 0	165- 0
Reserve	108- 0	107-12	107-12
Public Utilities :—			
Andhra Power	1,822- 8	1,800- 0	1,800- 0
B. E. S. T.	148- 0	147- 0	147-12
Tata Power	1,765- 0	1,737- 8	1,755- 0

Commerce, 27th March, 1943,

APPENDIX XXXII

Analysis of Assets of Indian Life Insurance Companies during 1915—1940

Percentage figures.

	1915	1920	1925	1930	1935	1940
Mortgages on Properties in India	2.5	3.04	4.67	3.69	4.15	2.9
Loans on Policies within Surrender Value	5.97	7.66	7.54	8.37	9.15	8.96
Loans on Stocks and Shares and on personal Security	0.38	0.86	0.94	0.87	0.63	0.77
Indian Govt. and Indian State Securities	59.82	59.14	53.51	41.34	50.91	53.37
British, Colonial and Foreign Govt. Securities	0.13	—	—	1.79	1.00	1.14
Municipal Securities etc., Port and Improvement Trust Securities	15.85	14.23	17.28	14.88	10.62	8.01
Shares in Indian Companies	1.64	2.05	3.34	2.74	6.20	6.74
Land and House Property	5.27	5.89	5.54	5.34	5.42	6.70
Agents' Bonuses, outstanding premiums, outstanding and accrued interest	3.42	3.02	3.31	4.66	4.80	4.47
Deposit, Cash and Stamps	2.22	2.87	2.42	2.24	4.16	3.79
Miscellaneous	2.77	1.24	1.45	1.96	3.08	1.91

Compiled from the Insurance Year Book.

APPENDIX XXXIII.

Glossary of Stock Exchange Terms.

Account :—The period existing between two settlement days—For the account refers to forward business and may also relate to the process by which Stock Exchange bargains are settled. In Bombay Market it occurs monthly. The Governing Board every year fixes twelve account and settlement days. In case of forward transactions at the Bombay Stock Exchange, the settlement extends over a period of six days and the fifth day, when Balance Sheet and Statements of differences are submitted to the Clearing House, is termed as the pay day or the *Account* day.

Arbitrage :—When different prices are prevailing for an article or share in different markets, the dealers make simultaneous transactions with the object of making profit by the difference of prices. Such transactions are termed as *Arbitrage* operatious. (Vide page 101.)

Allotment :—A formal notice in a Letter of Allotment sent by a public Company to parties who have applied for shares, stating that their request has been complied with and naming the number of shares granted or *alloted*, as it is called.

Bull, Bear and Stag :—Speculators at a Stock Exchange can be divided into three classes—the bull, the bear and the stag. But it is not necessary that a bull operator always acts as such and a bear always a bear. The same operator may be a bull or a bear at the same time.

A *bull* is an operator who purchases a security in the hope of being able to sell at a profit before the end of the Account. He does not intend to take up the delivery of shares and pay for them. The idea of such operators is to sell the securities which they have purchased, before the settlement day. If the expectations of the bull materialize and the rise takes place, he sells out the securities without paying any money for the purchase of securities, and pockets the difference between the buying and selling prices—less expenses. On the other hand if the price falls against his expectations, he may pay the difference as a loss or else he may carry forward a transaction by paying a contango.

A *bear* operator on the other hand sells short in the belief that he may be able to buy back his security at a lower price. If the price falls according to his expectations the operator gains, while if the market goes against him, and he is forced to buy back his security at a higher price than that at which he has sold, he pays the difference which is a loss to him.

A *Stag* on the other hand neither buys, nor sells—he applies. He is the operator who applies for shares in a new Company with the object of selling them as soon as a premium is obtainable. He does not intend to put down more than his application money, since he hopes to sell before even allotment money is called. In this way he can apply for a far bigger allotment than his means permit. Sometimes the term *Stag* is also applied to one who sells shares before allotment, anticipating a successful allotment to himself. He may do this as a kind of preliminary *Bear* manoeuvre, hoping that the promoters will buy from him rather than see the market in their shares spoilt by premature selling. The above explanation clearly indicates that even *stags* may not always want to take delivery and then sell. The term thus means, in effect, a *bull* in the making. The action of *stags* is also not free from risk. If the response to a public issue, in which such an operator has applied for a large number of shares, happens to be small, the operator would find that his offer has been allotted in full and the price of such shares in the market may

open at a discount. This may entail a heavy loss to the *stags* unless they decide to take up the allotment, pay for it and wait for a considerable period of time.

Bullish :—When the market at any particular time is dominated by a felling of rising prices or optimism, the tone of the market is called *Bullish.*

Bearish :—When pessimistic tendency prevails and the speculators expect a fall in prices, the tone of the market is called *Bearish.*

Bull Account :—When speculative purchases made by bull operators in a particular commodity or share far exceed its speculative sales, there is said to be *bull account* or an *overbought position.*

Bear Account :—When the speculative sales of a certain commodity or share exceed its speculative purchases there is said to be a *bear account* or an *oversold position.*

Bull Campaign :—When an overbought position exists in any share and the bulls try to bring about an artificial rise in its price by circulating bullish news, such tactics are known as *Bull Campaign.*

Bear raid :—When there is a bear account in any share and the bears attempt to depress its price by spreading in the market bearish news, such an action on the part of bears is called *bear raid.*

Bull Liquidation :—Sales made by bulls in order to settle their Commitments are termed as *bull liquidation*, particularly when their expectations are not realized and they have to sell or unload at a loss.

Bear Covering :—A bear sells a share in the expectation of a fall in its price, so that he may purchase it again before the date of delivery in order to fulfil his promise. But against his expectations, the price instead of falling begins to rise, the bear will be compelled to start buying to save himself from further loss. Such a purchase by bears is known as *Bear Covering*, the general effect of which is a rise in prices.

Bonus :—Distribution of profits either from accumulated reserves or from current profits, in addition to the regular dividend is termed as *bonus* which may either be paid in cash or in the form of shares.

Broker and Jobber :—An agent or member of a Stock Exchange who buys and sells on behalf of his clients on a Commission basis is termed as a *broker* ; while a member who deals exclusively with brokers or other members and not directly with the public is termed as *jobber* (Vide page 136)

Brokerage :—Commission paid to a broker for transacting business on behalf of his clients.

Backwardation :—A rate paid by a bear to enable him to renew a bargain until a later settlement (Vide page 82.)

Buying-in and Selling out :—Buying-in is the process by which a buyer enforces delivery of securities when the seller has failed to deliver them within the stated time. Selling-out is affected by seller when the buyer refuses to take the delivery of shares and fails to pay for them. (Vide page 80.)

Bearer Securities :—Bonds and shares the possession of which is in itself evidence of ownership. They are transferred by mere delivery.

Bonds and Debentures :—Bonds and Debentures are the written acknowledgemnt of a debt taken by a Joint Stock Company. When certain property is specifically mortgaged for the loan, the security is termed as a *Bond*, while if the security of the loan depends on the general credit of the Company, it is termed as *Debenture.* (Vide page 10.)

Budla or Carrying over :—A speculator who has bought or sold a security for forward delivery, may be unable to pay for it or to deliver it on the settlement day and may desire the completion of the transaction to be postponed to the next settlement. This process by which speculative bargains are continued from one account to another is termed as ***Budla*** or ***Carry-over.***

Contango :—A rate paid by the bull to the bear to enable him to renew a bargain until a later settlement is termed as *Contango.* (Vide page 82.)

Counters :—(Issues or Units) used for shares of companies.

Cum. Div. (c. d.) :—Cum. means "with", Div. means dividend. Therefore cum. div. means with the right of securing the dividend when it is distributed.

C/m :—Call of the more (a term used in option dealings, vide page, 99.)

Ex-Div. (x. d.) :—An ex-dividend quotation of a security means that the next interest or dividend payable upon it is not included in the price *i. e.* when a security is sold ex-div., the next interest or dividend will be received by the seller although he has parted with the security.

Ex-New :—The shares of a Company usually carry with them the right to subscribe for new shares in the same Company at a price lower than that at which they are available in the open market. Therefore ***ex-new*** (when attached to the price of a share) means that the buyer is not entitled to any such right.

Equity Shares :—(or simply Equities) These are the ordinary shares of Companies.

Face Value :—(Nominal Value) The nominal value of a stock or share as opposed to its market value.

Industrials :—These are shares of industrial Companies as opposed to banks, insurance and public utility Companies.

Investment Demand :—Demand from persons who intend to hold seurities as an investment for the purpose of earning an income and not with a view to reselling them at a Profit.

Making-up price :—The official price at which speculative bargains are carried over at each account.

Official List :—The Stock Exchange list indicating the prices at which business was transacted at the Bombay Stock Exchange, published under the authority of the Exchange.

Option :—(Call, put and call and put options) Vide page, 99.

P/M :—Put of more—a term used in option dealings. (Vide, page 99)

Registered Securities :—Securities the holders of which are enrolled in a list, they are transferable by deed.

Scrip :—This is a common term employed on the Stock Exchange for any kind of security, such as government paper, debentures and shares. The term ***stock*** is also used in the same sense, but more particularly stock indicates a form of debt or capital which is divisible into and transferable in odd and varying amounts, and is always registered or inscribed.

Shares :—Ordinary, Preference and Deferred (vide page 6.)

Sinking fund :—A fund set apart by the Government or Company for the redumption of debt or the writing down of assets.

Settlement :—The settlement at the Bombay Stock Exchange occurs once a month for the settlement or closing up of all bargains made during the current account.

Securities :—A term used for the securities of government, port trusts bonds, municipal bonds and debentures and debentures of public Companies. ***Gilt-edge securtties*** (also briefly called ***gilts***)—first class securities which give the investor the greatest possible degree of safety. But the term ***gilt-edge*** is used more particularly to those stocks or loans which carry a Government guarantee as to principal and interest. ***Investment securities*** refer to those securities, which from an investor's point of view, may be considered sound both as regards income and repayment of capital. ***Trustee securities*** are those securities in which trust funds can be legally invested ***e. g.*** government securities and debentures of local authorities.

s. l. or S. O. L. :—These abbreviations is attached to price quotations indicate that only a small business was transacted.

Stop-loss-order :—(Vide page 74.)

Tip :—A person having some prior knowledge or information of an event, or of certain circumstances about to take place, whereby a particular stock or share is likely to advance or fall in price, is said to have a ***tip***, or when giving such information to another is said to be "giving a tip."

Tout :—A term applied to those parties who usually for a share in commission, bring business to the 'House' in the shape of speculative orders from persons who are known to them and are anxious to do them a 'turn.'

Transfer book :—The special book kept for the transfer of Registered and inscribed stocks, and in which both the buyer and the seller or his proxy have to sign their names when the stock is transferred.

Yield :—(Flat and Redemption Yield) Vide page 167—68.

Writing down :—The process by which the value of assets, as stated in the Balance Sheet is reduced to a level conforming to their realizable price.

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